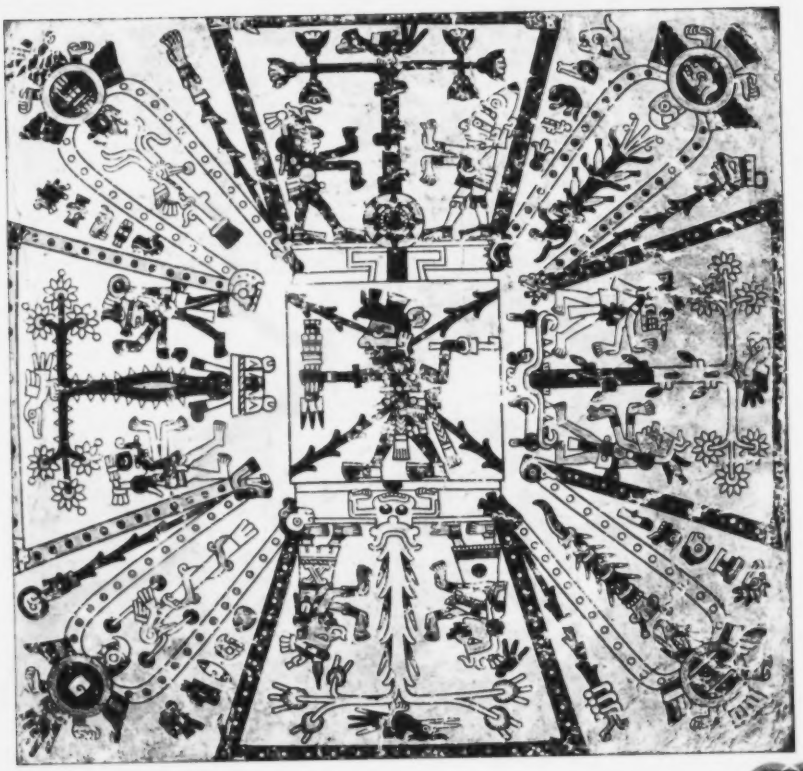
undp

Cooperation South



ISSUE ONE 1988

- PIVOTAL COUNTRIES
- GOVERNANCE
- INVESTMENT TREATIES?
- YOUNG ENTREPRENEURS
- FAO'S TCDC

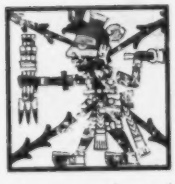
UNITED NATIONS DEVELOPMENT PROGRAMME
SPECIAL UNIT FOR TECHNICAL COOPERATION AMONG DEVELOPING COUNTRIES

THE CREATIVITY OF 4.7 BILLION PEOPLE

THE COVER DESIGNS USED ON ISSUES OF THIS JOURNAL PRESENT ARTIFACTS OR ARTWORKS THAT DEMONSTRATE THE CREATIVITY AND CONNECTIVITY OF PEOPLE ACROSS THE SOUTH.

Four corners of the earth

Probably Mixtec in origin, this design comes from a "codex", one of the old Mexican books of picture



writing which survived destruction by Spanish conquerors in the 1500s. It shows that, in what is today called Mexico, early civilization was firmly based on the four cardinal directions — east, south, west and north — each with a special tree, bird, color, gods and rituals. Compass points also provided the fundamental grid for the community, with large regional centers at each point. In Mayan times, some centers, known far and wide, had enormous public works — platforms, pyramids, and causeways, grouped around open concourses and plazas, encrusted with sculptures of picture writing. Life was regulated by an elaborate calendar, astronomical observations, and predictions of eclipses of the sun and moon. Trade extended to the Gulf Coast, Guatemala, Honduras, Costa Rica and Panama. From Colombia, the Maya learned the art of casting metal and obtained emeralds. There were also contacts with Jamaica and Cuba.

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The emblem of Technical Cooperation among Developing Countries (TCDC) displays a symbolic bridge joining the countries and people of the Southern hemisphere.

The centre of the emblem—where the Southern, Northern, Eastern and Western parts of the world join—symbolizes a further and ultimate objective of TCDC: the promotion of a truly global partnership for development.

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EDITOR WINS 1997 GROUP OF 77/UNDP AWARD

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MESSAGE

FROM THE ADMINISTRATOR OF UNDP:

Anniversaries and Innovations: Beyond Permeation and Promotion

"THE ENTIRE UNITED NATIONS development system must be permeated by the spirit of TCDC, and all its organizations should play a prominent role as promoters and catalysts of TCDC."

It is twenty years since that recommendation was adopted as part of the Buenos Aires Plan of Action for Technical Cooperation among Developing Countries (TCDC). But this year, we are marking much more than a two-decade anniversary. We are moving ahead on innovations that have taken TCDC well beyond the stage of permeation and promotion of an idea, into the mainstream of development operations.

TCDC registered particularly solid advances in policy and practice during the 1990s. Some examples:

Implementation Role: Giving "full support and first consideration" to the use of TCDC in international development cooperation became intergovernmental policy from the United Nations Economic and Social Council in 1992; not only for the United Nations system, but for "all partners in the development effort".

Advisory Role: Another forward step, TCDC took on active roles in problem-solving, as called for by the High-Level Committee on TCDC in 1993. While continuing to foster valuable exchanges of experience, TCDC is useful as a joint mechanism for tackling common issues and subjects like sustainable development, information networking, or management of economic reforms.

Technical Advice: TCDC has increasingly worked to shape its technical advice in accordance with economic cooperation goals and other strategic initiatives that are likely to have a major development impact.

These and other "New Directions" in TCDC were endorsed by the General Assembly in Resolution 50/119 of 5 December 1995.

UNDP's country offices have played an important role in implementing these practices. To this end, my recent letter to all UNDP Resident Representatives urges them to place TCDC collaboration high on the agenda for discussion with government officials and other cooperating partners. UNDP offices are working to encourage the building of national policies and focal points for TCDC, and the enhancement of TCDC in UNDP country programmes and projects.

The leadership of the Special Unit for TCDC is a linchpin of these efforts. During his three years as Director, Denis Benn piloted the preparation of the New Directions strategy. The new Director, John Ohiorhenuan, brings experience as a university professor in macroeconomics and as a senior manager in government, the World Bank and UNDP. One evidence of his dynamism is already in sight—the remaking of this journal to focus on serious issues of special interest to development policy-makers and practitioners. Another will be the special events to commemorate the twenty-year anniversary of the Buenos Aires Plan of Action, in September 1998.

James Gustave Speth
UNDP Administrator

FROM THE DIRECTOR, UNDP SPECIAL UNIT FOR TCDC:

Expanding Capacity, Shrinking Distance

IT IS A REAL PRIVILEGE for me to join UNDP's Special Unit for TCDC at a time when globalization and interdependence among states have deepened the need and opportunities for international cooperation. The countries of the South exhibit common as well as varying evolutionary processes and know-how which offer many possibilities for accelerating development at the bilateral, subregional, regional, interregional and global levels.

As globalization integrates markets in goods, services, capital, technology and labor, it can bring new instability, including interest and exchange rate fluctuations and volatile short-term capital flows. It can therefore increase the vulnerability of developing countries. But it also generates many potential benefits and creates new avenues for international cooperation. This dialectic compels developing countries to try to mitigate the negatives and capitalize on the positives of the process by sharing experience and learning from one another's achievements and difficulties. South-South cooperation offers developing countries a framework for collective approaches to these challenges through collaboration in the formulation of sound economic policies. Another major challenge is to assist least developed countries, small island developing states, and landlocked developing countries in attracting higher flows of direct financial investment.

Globalization rests on and is sustained by the remarkable revolution in information technology which permits high volumes of high quality data to be transmitted in real time. At the same time, the information revolution holds enormous potential for fostering international cooperation, since it diminishes distance. Our goal is to expand the capacity of the Unit's information system to support developing countries' efforts to acquire and use new information technologies for development purposes. We also aim to strengthen the capacity of developing countries in policy research, analysis and negotiation, enabling them to formulate common positions and to

participate more effectively in emerging international forums like the World Trade Organization.

Our endeavors to promote South-South cooperation are premised on building strategic partnerships with UNDP bureaux, UN agencies, regional commissions, regional groupings, governments, the private sector and civil society. We are equally committed to intensifying our collaboration with the Group of 77, as well as with strategic and policy institutions in the South.

To promote dialogue on matters of importance to the South, we have reshaped Cooperation South. In its new journal format, this first issue takes up globalization and regionalization, governance, investment regulation, young entrepreneurs, and FAO's uses of TCDC. It also presents interviews with the UN Secretary-General and the Chairman of the Group of 77. We want the journal to be interesting and enlightening, and to provide real service as a stimulus to policy thinking and practical action.

John Ohiorhenuan
Director,
Special Unit for TCDC, UNDP

Pivotal Countries in a Two-Track World: Regionalization & Globalization*

BY MICHAEL SAKBANI

INCREASING GLOBALIZATION of national economies has the potential to marginalize developing countries. On the other hand, it can reshape and deepen their mutual cooperation, focus it on building economic partnerships, complementarities and efficiencies, and thus improve the South's position in the newly emerging international framework. Michael Sakbani, who is the Director of Cooperation of UNCTAD, explores these issues and also outlines strategic contributions that the more advanced "pivotal" developing countries can make to this process.

THE PHENOMENON OF GLOBALIZATION

The world economy at large has been witnessing an increase in globalization of national economies brought about by a revolution in communication technology and increased liberalization. This is manifest in trade, finance, the application of technology and the location of production. While globalization was manifest in the 19th century, at that time it was limited to cross-border flows of goods, capital and people within a few dominant economies. By contrast, recent trends in globalization are more widespread and involve far more participants. Moreover, 19th century globalization did not have intergovernmentally approved legal rules, norms and institutions as contemporary globalization does.

The broad scope of contemporary globalization places developing countries and their enterprises within its reach. Developing countries have a genuine interest to avoid being marginalized vis-a-vis major participants in the emerging global order. The benefits countries could gain from globalization depend on how strongly they can participate, i.e. their competitiveness and their econom-

* The views expressed in this article are those of the author and not necessarily those of UNCTAD.

ic and institutional capacity. By virtue of their low level of development, developing countries would thus not be among the important beneficiaries. To change this negative scenario, how can they secure a level playing field for themselves? And what will it take to build the required competitive and institutional capacities for their enterprises?

Some response to these questions comes from the upsurge in cooperation among developing countries which has been occurring at subregional, regional and interregional levels concurrent with the trend towards globalization. These two phenomena, globalization and regionalization, are juxtaposed. Developing countries seem motivated to form and consolidate viable economic spaces which would stimulate dynamic growth in trade, investment and productive capacity. Within such spaces, it is easier to develop viable, integrated and competitive productive systems and to secure stronger market bases and marketing experience. From these foundations, enterprises can better launch into the global market with the requisite competitive wherewithal.

The impetus behind increased regionalism is aided by several related trends. It is encouraged by wide-ranging policies of national economic reform, especially those favoring free markets. This market emphasis leads naturally to more cooperative agreements being reached at subregional and regional levels, and to the adoption of liberal international policies vis-a-vis the rest of the world. As such cooperation increases, there is a growing convergence in the main macroeconomic policies of various countries. This, in turn, widens the scope for developing and strengthening interstate economic and political linkages. Finally, significant impetus for trade liberalization comes from the international level. This arises with the conclusion of the Uruguay Round of Multilateral Trade Negotiations and the creation of the World Trade Organization (WTO), which came into being on 1 January 1995.

The increased cooperation among developing countries is not limited to sectoral collaboration in areas such as trade, investment and finance, settlement systems, technology and production. It also includes technical cooperation among developing countries (TCDC), involving exchange of experience on successful development methods and programs. For example, certain more advanced developing countries—called "pivotal countries"—have lessons to share from their experience which, if adapted to the needs of individual less developed countries, can save them effort, time and money.

HOW DO REGIONAL AND GLOBAL LEVELS INTERRELATE?

The newly emerging international trading framework has implications for trade-related cooperation among developing countries at national, bilateral, subregional and interregional levels. Existing policy instruments from the General Agreement on Tariffs and Trade (GATT) still affect this cooperation. In addition, new policy instruments resulting from the Uruguay Round and the establishment of WTO

are having effects and will undoubtedly have more in the future.

Among the newly arising issues, perhaps the most critical are the following:

- Free trade areas and customs unions are being more closely disciplined. They are expected to achieve their goals within a 10-year time limit. Provisions for their common external tariffs are tightened. The mechanism for dispute settlement is now applied to them. These disciplines are stronger than under GATT (Article XXIV). At the same time, there are special provisions favouring developing countries in the WTO agreement (Part IV), and post-GATT decisions regarding preferences remain in force (such as the "enabling clause").
- The multilateral trading framework has been extended to cover the growing services sector. The General Agreement on Trade in Services (GATS) contains provisions (in Article V) regarding the integration of groupings similar to those in GATT (Article XXIV).
- Regional trade agreements are to be examined more closely. The aim is to ensure they conform to WTO agreements and to trace their implications for regional multilateral trading systems. A new WTO Committee on Regional Trade Agreements is studying such improvements, which may include periodic reporting on how the agreements function in practice.
- Specific limits have been placed on Governments' use of promotional instruments to expand foreign trade, investments and services.
- Provisions regarding the duration of GATT waivers have been substantially tightened.

The interplay between the global disciplines and the provisions of subregional, regional and interregional agreements is also shifting in at least four ways:

First, some disciplines which were created through agreements at lower geographic levels have become globalized and extended to all members of WTO.

Second, in some cases, global requirements which are more stringent than those in smaller cooperation groups eventually overtake them. Also, "new" issues on the global agenda get incorporated into regional agreements.

Third, WTO global standards increasingly form a base which is built upon, refined, technically perfected and intensified at the subregional, regional and interregional levels. The resulting trade,investment and financial agreements among groups of countries can be referred to as "WTO plus regionalism".

Fourth, there may be a danger that regional agreement partners will negotiate disciplines and adopt approaches in the regional context that could be inconsistent with the practice in other regions and with an eventual global agreement on such issues.

The challenge facing developing countries is to organize their coopera-

o as to maximize its benefits and
rrently contribute to the proper
ioning of international trading
inancing systems. The interaction
gionalism with international discip-
s is a new phenomenon and calls
revision of traditional notions of
omics. The contents of the new
es of cooperation, and indeed of all
C activities under the prevailing
ditions of the globalizing world
nomy, are interactive and compati-
with globalization. The practical
theoretical consequences of these
ures are elaborated below.

raction of new modes of cooperation the global system

the past, cooperation among devel-
ng countries mainly involved the
ablishment of free trade areas or cus-
ns unions. The emerging trends now
for cooperation that goes beyond
rder arrangements alone, into multi-
sectors and into deeper content.
deed, in recent years there is a
vealed preference for developing
gional/subregional production sys-
ms, preferential trade areas, invest-
ent-technology cooperation, and
utual exchanges of experience among
arious developing countries at differ-
nt or similar levels of development.
Often this includes extending technical
ssistance (TCDC) to each other, with
r without the participation of devel-
ped countries.

Moreover, new trends indicate
cooperation within the borders of the
countries involved. Examples are the
harmonization of regulations and
mutual recognition of standards. In
the case of MERCOSUR and the Euro-
pean Union, the reach has widened
to include coordination among the
national policies of collaborating coun-
tries. These internal measures need to
be mutually agreed in order to develop
the underlying production capacity for
trade, to open up the necessary space
for viable investment and to mobilize
regional financial resources in an effi-
cient manner. At the same time, this
in-depth collaboration changes the
configuration of the relationship be-
tween the regional and global systems.
As the developing countries deepen
their cooperation and extend it to mul-
tiple sectors, they are also enhancing
their capacities to participate in the
global markets.

Take the example of creating busi-
ness firms which are cross-border in
scope. To make the operation of such
firms possible and viable, a whole series
of steps must be taken by the partici-
pating countries. They each need to
grant rights for the national establish-
ment of a transnational business, enact
regulations and incentives that are suit-
able and compatible, arrange for pooled
investment in human resources open to
all firms, allow free mobility of human
resources, and either accept each oth-
ers' national business standards or draft
common ones. In the context of the
advocated liberal trading policies,
this ought to promote product differen-
tiation and bring standards to interna-
tional levels. It will also create oppor-
tunities for forging business alliances
and testing them on the regional level.

Hence, such cooperation would develop the competitive capacities necessary for success in the international marketplace and also afford some learning by doing.

Successful examples of South-South cooperation in all forms create competitive alternatives to the multilateral system if the latter does not advance the interests of all its members. This serves both as an insurance against negative externalities of the multilateral system and as a powerful force to advance and increase the efficiency of the larger system. The integration of economic and technical cooperation among developing countries (ECDC and TCDC) is also an important contribution to the international system of cooperation.

By putting the experience of developing countries at the disposal of each other, and enabling the developed countries to contribute financing and expertise therein, South-South cooperation deepens the international system, enhances its links and assures partnership between all members regardless of their level of development. It creates a more beneficial interaction with the international system, because it goes beyond what is mandated under the WTO into the further dimensions opened up by voluntary, mutual pursuit of joint interests—a more advanced level which can be called WTO plus cooperation. Finally, public opinion can relate more easily to regional/subregional cooperation and thus helps build a political constituency for international cooperation.

Compatibility of ECDC-TCDC with globalization and liberalization

The compatibility between the international system and ECDC/TCDC arises, in the first place, from the process of removing barriers to trade, investment and finance, as manifested in these forms of cooperation. This can be reinforced by implementing policy reforms that increase allocative efficiency and liberalize access in general. If such policies are accompanied by a flexible attitude towards memberships, ECDC/TCDC cooperation arrangements become stepping stones towards larger spheres of international cooperation. This has been associated with the rising practice of open regionalism or open and flexible ECDC, concepts developed by the Economic Commission for Latin America and the Caribbean (ECLAC) and UNCTAD respectively. Indeed, this is echoed explicitly in the 1997 San Jose Plan of Action adopted by the Group of 77, which places ECDC in the context of the globalizing economy.

"Open and flexible ECDC" involves the homogenization of norms and standards in various domains — for example, rules on origin of goods, dispute settlement, cross-border banking, and so on. This process helps enhance the international system in one of two ways. If the rules established by cooperative groups cover areas not already set at the global level, they become models for larger cooperation. On the other hand, if they are close to norms and standards already negotiated in the multilateral trade or finance system, they enhance

international system and make it sible for developing countries to participate at minimum cost.

sequences of the new modes of cooperation

The first and obvious consequence of new modes of South-South cooperation is that custom unions are seen differently now. Traditional economic theory only their benefits for trade, assuming erything else to be constant. However, ultisectoral and deep forms of integration bring dynamic consequences of owth and complementarity which are rucial. They inevitably produce higher fficiencies and reduce the internal cost f enterprises, thereby resulting in lower roduct prices. This invalidates the tradional conclusion of economists that the global system is a fortiori superior to subglobal cooperation.

The second consequence is to reduce power asymmetries in international agreements. The structural differences among regional partners tend to be fewer and smaller, and their underlying capacities in all domains are in closer proximity. When they take part in the negotiation of global agreements, they have an existing common base. Their greater convergence means fewer conflicts, narrower areas requiring compromise and a less difficult process. It also forges political platforms and alliances which are more evenly matched among the partnership groups, thereby reducing the asymmetries of underlying economic and political power in global negotiations.

The third consequence is that multisectoral cooperation reinforces the interconnections between trade, investment, finance, technology, etc. in practical ways and on a viable scale. Past South-South cooperation in single sectors had major shortcomings. Production structures were often insufficiently developed and not capable of achieving trade complementarity. Participants had asymmetrical shares of the benefits. Cooperation plans ran up against, and could not achieve better ways of serving, the self-interests of participants.

When there are clear and strong goals of economic cooperation, these provide the substance for the work of technical cooperation, clarify its objectives, delineate its sectoral content, and guide its priorities. This is what it means to "integrate ECDC and TCDC": technical-field assistance is focused on spearheading and supporting the cooperative undertakings of developing countries. In sum, ECDC becomes the framework for TCDC, while TCDC gives operational content to ECDC. The result is a rational use of resources and a channeling of international assistance from all sources into promising growth sectors at the global and regional levels.

Finally, ECDC-TCDC becomes the joint responsibility of developing and developed countries, and not the sole concern of the former. In effect, this would be a realization of the old goal of the U.N. General Assembly in its 1976 resolution on ECDC which placed South-South cooperation in the interest of the global economy and of all members of the international community.

THE ROLES OF PIVOTAL COUNTRIES

There are at least three main elements in the definition of "pivotal countries", whose designation has proceeded on the basis of General Assembly Resolution 50/119. These elements are: their relatively advanced level of development, experience and accumulated expertise; their existing or potential capacity for sharing that knowledge with other developing countries; and their relatively important involvement in the global economy. This places them in a pivotal position, with potential influence reaching in two directions.

On the one hand, through TCDC, they can be of direct service in the internal development of other countries. They are at a forward point of development where relevant knowledge and specialization which evolved from their own national experience can be deployed to assist other countries which are working towards similar goals under similar conditions. The same is true for their potential roles within regional groupings of developing countries, between such groupings, and also interregionally in some instances. That is, these pivotal countries may be able to play leading roles in shaping economic cooperation in policy, institutional and practical terms. Their own economic strengths may become a motor force for wider trade, finance, production and marketing arrangements that involve groups of collaborating countries within a rational and well-based division of labor.

On the other hand, the more advanced developing countries are naturally also often stronger players and more experienced in the global economy. Thus, they can be a "leading edge" for other developing countries seeking to achieve more stable, beneficial and productive relationships in the wider world scene, as discussed in more detail below.

Hence, there are economic-political roles which flow from these facts and are incumbent upon these countries. Of course, to be a pivotal country is first of all a political and voluntary decision, and there is no question about forming in any sense an exclusive club. But once designated, pivotal countries can have a strategic-political role in regard to ECDC–TCDC and the global economy, a role in the sharing of policy experience; and substantive roles in regard to the process of ECDC–TCDC. Within these roles, they can contribute to specific sectoral goals and activities, to the co-financing of cooperative programs, and to strategic building of organizations and institutions.

The strategic-political role

The relatively developed capacities and economies of pivotal countries give them a genuine interest in harnessing ECDC and TCDC and linking them to their ability to enter into the global market. Similarly, they have interest and concern in the harmonization of this ability with that of other developing countries, by forging alliances that strengthen their joint position on issues of mutual concern in the multilateral system. Examples are such issues as labour standards, environmental safeguards, transition arrangements in the WTO, the fit between ECDC arrange-

ments and global disciplines, to name but a few. As multilateral negotiations involve diverse interests and as the realities of economic and political power are never absent from these processes, forging such alliances is in the interest of both pivotal countries and other developing countries. Without some coalescing, the developing countries would be in a weaker position to serve their interests in the multilateral system. In this context, the UNDP and UNCTAD can be called upon to help in bankstopping such cooperative efforts and in identifying the issues involved before the various international fora.

Some pivotal countries have experience in opening up strategic paths for entering the global economy. This experience can represent a tried path for other countries to follow. In particular, the experience of Asian pivotal countries can show a relay pattern for how cooperation can proceed among developing countries. Countries which advance to a new generation of products and services lead and leave place to those coming up after them—an example of economic alliances for successful growth and global integration.

The policy experience of pivotal countries

Many pivotal countries have undertaken important macro and micro policy reforms which can be very valuable examples for study and possible emulation by other developing countries. For example, there are important lessons on how they dealt with such macro-issues as capital inflows, financial reforms, currency convertibility, and so on. In some regions such as East Asia, some policy reforms have had different strategic phasing and modalities than orthodox prescriptions. TCDC can be used for policy experience projects, bankstopped by relevant international organizations such as UNCTAD and UNDP, and would be of great interest to a wide audience of developing countries.

There is also microeconomic experience to share. This involves issues like privatization, reform of competition policies, legislation for encouraging enterprises and incentives for foreign enterprises. Again, this can be put at the service of other developing countries via TCDC-ECDC projects as a form of exchange of experience. Still other experiences might involve industrial collaboration and enterprise-to-enterprise for example, the establishment of marketing exchanges like networks and information retrieval systems. Lessons from this experience might be steered through TCDC projects designed in partnership with the enterprise sector.

Substantive roles

As pointed out before, ECDC can provide the substantive content of TCDC. The role of pivotal countries would be to specify the particular areas where their experience and capacity can be exchanged and brought to bear on the needs of other developing countries individually and in groups. Three major substantive areas can be suggested: trade expansion, monetary and financial cooperation, and investment/innovation/enterprise development.

Expansion of trade among developing countries

Trade among developing countries suffered a period of stagnation and decline from the beginning of the 1980s through 1987. These difficulties came about because of the adverse external international environment of the early 1980s and the debt crisis of the early 1980s. Next came an improved external situation in the mid-1980s and the very substantial reforms undertaken by developing countries in the late 1980s. With these changes, intra-developing country trade recovered and soon resumed its growth.

While the volume and composition of this trade differed in various regions, mutual developing country trade has become a major dynamic source of international trade growth. This trade rose from US$800 billion in 1990 to $1,400 billion in 1995. The annual growth rate was 15.4 per cent, accounting for half the growth of overall trade in developing countries. Two elements are striking in this picture. First, the volume and diversity of products shifted from dominance by the oil trade to manufactures. Equallly significant is the fact that enhanced productivity originated from regions and countries that have become autonomous centers of growth in world trade. To illustrate this point, it is well to recall that while the shares of some major developed countries declined in some years, those of developing countries did not follow suit. As a result, the share of intra-trade rose significantly, reaching 40 per cent of developing country total exports in 1995.

However, the impressive performance of mutual trade should not mask four main problems. Developing country intra-trade is still only about 11 per cent of total world trade. Most of this trade is still within major regions. Judging by the dynamic export and import patterns of developing countries, the potential of this trade is far from realised. However, most of the growth was concentrated in a small group of dynamic countries which have achieved a high degree of international competitiveness in industrial exports. The pattern of annual trade growth for 1991-1995 is shown below for selected regions.

Five current issues in trade among developing countries stand out for closer attention:

- **Interregional trade.** The vast potential for interregional trade has hardly begun to be realized. Giving it a boost calls for the use

PATTERN OF ANNUAL TRADE GROWTH (1991- 1995)

Region	Growth in total trade (%)	Growth in intra-trade (%)
South and southeast Asia	15.4	19.0
Latin America-Caribbean	7.9	12.3
Africa	8.0	3.4

of trade promotion instruments such as enlargement and deepening of the Generalized System of Trade Preferences, securing trade finance for South-South trade in foreign exchange, especially for medium and small enterprises, and enlarging trade information among potential interregional partners. The pivotal countries are well placed in each of these areas.

- **Trade-investment and technology relationship.** Previous South-South trade cooperation achieved meager results because productive capacities were poorly matched and few tradables were produced. This inevitably led to unbalanced benefits among countries in free trading areas. This can be remedied by integrating trade-technology and investment at subregional levels so that trade and trade capacity creation go hand in hand. Such an integrated view fits well into the business strategies of enterprises which now seek production and distribution alliances beyond their national borders. Examples are to be found in East Asia in particular.
- **Infrastructure.** Intra-regional trade, despite its impressive recent growth, will face limits unless the infrastructural problems of transport, customs systems differences, differences in product standards and lack of trade information are resolved. Again, pivotal countries and the role of their enterprises is critical in this regard.
- **Pivotal countries' experience.** They have useful experience in the winning of market trade shares, the selection of products and the establishment of marketing networks. Other developing countries and cooperation groups can benefit from this experience via TCDC projects, and there is a promising vista for expansion of strategic TCDC work in this area.
- **Trade frameworks.** Strengthening trade frameworks among developing countries is imperative. The autonomous liberalization implemented by developing countries has been a major stimulus to trade among them over recent years. In addition, some groupings of developing countries have taken off and spurred mutual trade and economic integration, in addition to attracting investment from various sources. Various country initiatives for bilateral trade arrangements also helped build more networks within such groupings, particularly in Latin America. In many cases, such integration and preferential arrangements now exceed by far the traditional range of tariff preferences for industrial products and extend to services, government procurement and investment. They involve the harmonization of various domestic policies, standards and measures that have effects on foreign trade.

Expansion of monetary and financial cooperation

Most developing countries, including the pivotal ones, have limitations on trade financing at the national level. Inadequate resources are devoted to trade-finance, particularly in foreign exchange. Institutional capacity is inappropriate or underdeveloped. Correspondent-banking networks among developing countries are small in size and scope. Modes of trade-credit evaluation are very conservative. Export-credit insurance is often unavailable. The result is that their exporters, especially those of medium and small size enterprises, are disadvantaged in relation to developed country exporters. And because these exporters often use international trade-finance institutions, their exports to other developing countries are particularly disadvantaged.

Cooperation in trade finance presupposes, to some extent, that a viable national trade-financing capacity exists in developing countries. This is not always the case in the majority of developing countries. However, some developing countries in all regions have very well developed trade finance structures.

There is great merit to the coordination of policies and practices by export-financing programmes in developing countries. For example, they might seek some form of standardization of papers, rules of operation, credit-rating procedures, insurance and guarantee treatment. In the area of regulatory policies, they might consider the optional use of documentary credits for export transactions (still mandatory in some developing countries) and simpler procedures for non-bank providers of export finance, such as factor and invoice discounters. In addition, exporters could be allowed to use a portion of foreign exchanges earnings to purchase modern financial products (e.g. credit insurance) that may not be available in their domestic markets. Cooperation among regional financial institutions may include co-financing of export credit operations, and cooperation aimed at fostering institution building for trade-financing institutions. The former could be the task of regional development banks.

Another innovation could be triangular cooperation, in which developing countries share their own expertise, while developed countries provide financial and other assistance to facilitate this exchange of experience.

Trade-finance recommendations going in the same direction are contained in the San José Plan of Action adopted by the Group of 77 in 1997. Specifically, it calls for expanding the risk-trading capacity of "Southern banking systems so as to provide both normal and structural trade-finance for South-South trade transactions, with multilaterally agreed guarantee cover for credit enhancement and country risk. To this end, there is a need to exchange experience on exports financing through dissemination of information among credit insurance institutions in the South. Furthermore, the UNCTAD prototype model of trade-financing for regional cooperation and for developing national capacities can be utilized to establish or

enhance the institutional framework for trade-financing in the South."

Another area for expanded cooperation is capital market development. It is widely recognized that stock markets can be valuable and efficient sources of financing for enterprises. More and more developing countries are establishing stock markets. Cooperation among developing countries on capital market development may represent an option for countries that face obstacles in establishing efficient national stock markets. Regional capital markets enlarge the financing options for domestic firms by mobilizing both domestic and regional financial resources and offering risk-pooling opportunities for investors. They also enhance the allocative efficiency of capital. Regional capital markets present advantages for market actors. For intra- and extra-regional investors, they provide opportunities to diversify portfolio risks, as well as access to more standardized and widespread information on listed securities and a more reliable pricing of available equities. For intra-regional enterprises, they would provide access to an extended pool of financial resources.

The establishment of regional capital markets would require more intensive coordination of private and public agents at the national and regional level. In setting up cooperative schemes, the three types of private actors involved in national capital market operations should be considered: security exchanges (parallel and over-the-counter markets); domestic custody, settlement and clearing institutions; and listed companies and brokers. Such schemes would require telecommunication services and acceptable communication links among markets and market actors.

Harmonization is best carried out in a way which respects the autonomy of domestic markets and their regulators and which eliminates incompatibilities among markets as a necessary minimum.

Possible measures to facilitate cooperation may include:

- at private sector level, establishment of regular channels of exchange of information among securities markets; harmonization of electronic technology, aimed at creating an interconnected regional trading and settlement system; creation of links for cross-border security trading; establishment of a communication network; and creation of such regional instruments as warrants, depositary receipts, regional funds, etc.
- at public sector level, regional harmonization of taxation; regional harmonization of regulation, supervision and financial disclosures, preferably based on international standards; monetary and fiscal harmonization; setting up dispute settlement systems and institutions; and establishing convertibility zones.

The San José Plan of Action called for the pursuance of intra-regional and interregional protocols to encourage integration of Southern financial markets. It also called for the expansion and diversification of South-South financial transactions.

Cooperation in investment, innovation and enterprise development

Intra-South investment has emerged in recent years as a significant tool for industrial cooperation among developing countries. This phenomenon has developed most rapidly among the Asian countries, where outflows totaled $41 billion out of total developing countries outflows of $47 billion in 1995. But it is also a fast-growing phenomenon among Latin American countries and it is emerging in Africa.

Cooperation among pivotal countries at the official level essentially involves harmonization of legislation governing four activities: foreign investment; establishment of foreign financial institutions; floating, selling and underwriting foreign securities; and fiscal companies. These issues are at the heart of would-be international negotiations on investment and financial services, but it might take a long time for these negotiations to start and yield agreed results. In the interim, pivotal countries might take four steps toward creating a shared investment framework that can later be generalized to all interested countries. First, as done in the European Community, draw up an inventory of needed integration measures, check it against what exists in each integration group in which pivotal countries are members, and draw up an action list. Second, where harmonization is not feasible, propose some mutual recognition of laws to cover a portion of this inventory. Third, investigate the feasibility of an investment insurance scheme for non-commercial risk. Finally, consider elements of a specific legal system for intra-investment. This could become an area for TCDC-ECDC projects, which UNCTAD could be asked to backstop.

Enterprise-level cooperation. Within the last decade or so, a number of South-based enterprises have increased their importance in terms of their assets, sales and employment, with some becoming genuine transnational corporations (TNCs). There is considerable scope for at least three types of cooperation among these enterprises, both within regions and across regions.

- **Supplier network arrangements** among countries of the South would enhance efficiency, making full use of skill specialization and economies of scale. They can be forged by TNCs based in either the South or the North. For South-based TNCs, this probably requires special encouragement to overcome the tendency of indigenous firms to source inputs from developed country TNCs, even when price and quality are basically the same.
- **Joint ventures and strategic alliances** to pool resources among producer enterprises is not a new idea. State-owned enterprises never gave very effective expression to the idea, but the emphasis on private sector enterprise has given it new life. Equity joint ventures can help minimize constraints stemming from lack of financial resources and production know-how. However, neither

greenfield joint ventures nor mergers and acquisitions are a frequent cross-border activity in the South. This probably relates to the weakness of emerging capital markets and the continuing strong hold of family commercial traditions. Encouragement could perhaps be given to multinational enterprises through various incentives. Also to be encouraged by incentives, government subsidies and general public support are strategic alliances or non-incorporated joint ventures to pool resources in design and Research and Development (R&D) efforts.

- **Cluster development strategies and cooperation**, including growth poles and growth triangles.

Growth poles: Close investment and trade relations with other Asian countries are said to be a major factor in the take-off of the Asian region. In Akamatsu-Ozawa's metaphor, the process has been likened to "flying geese". In the inverted "V" formation and hierarchical structure of Asian regional economic development, Japan is the "lead" economy, moving ahead and leaving place for newly industrializing economies forming the first tier, with ASEAN countries in the second tier, and the third tier including China, India and Pakistan among others. All economies pursue an export-oriented strategy, and the lead economy is a major provider of technology, complementary inputs and, in the early stages, markets. However, part of this process is in turn fuelled and magnified by rapid learning, imitation, and subsequently competition, given the shortening of product life cycles. The division of industrial labour is dynamic, with shifting comparative advantage. This shift might be more aptly described as "relaying comparative advantage".

Growth triangles: Complementing a regional or continent-wide growth cooperation strategy, there are policies for stimulating growth in certain subregions encompassing two or more countries. In this concept of growth triangles, economies of scale can be achieved in the use of skills, resources, finance, physical infrastructure and economic space. One outstanding example is the Indonesia-Malaysia-Singapore growth triangle (IMS-GT) launched in 1990, which encompasses the Indonesian Riau islands, the Malaysian State of Johor, and Singapore. An interesting proposal is the Tumen River Triangle, encompassing border areas of the Democratic People's Republic of Korea, China and the Russian Federation.

Measures to promote investment cooperation. Investment in the last decade has risen faster than both trade and GDP. This growth may receive continued impetus from the expected further

liberalization of portfolio and long-term capital flows in the future. Thus, South-South cooperation may include greater emphasis on the role of investment in an integrated framework for intra-South production, as called for in the San José Plan of Action. Specifically, it stated that intra-South investment is an important element of economic cooperation among developing countries, including the fundamental role of the private entrepreneurial sector. It called on member countries of the Group of 77 and China to encourage investment among developing countries in manufacturing as well as service sectors; pooling of resources among enterprises to overcome lack of financial resources and product know-how; and new markets and free economic trade zones among developing countries.

To stimulate such cross-investments, Southern investment banks and development finance companies need to develop effective cross-border operating capacities and skills; promote investments from other Southern countries through appropriate instruments; know more about opportunities for investment in other Southern environs; and expand their current nascent capacity to mobilize resources in external capital markets through strategic alliances among financial institutions, followed eventually by joint ventures. ■

New Voices, New Partners in the Search for Better Governance

BY KRISTINN HELGASON

GOVERNANCE involves many voices and many partners, from citizens to ministers. That is why the UNDP-organized International Conference on Governance had more varied attendance than any previous global meeting: ministers and senior officials; parliamentarians; mayors and local officials; and representatives of civil society, the private sector, and academia. Over 1,100 participants attended from 160 countries, as well as from bilateral donors and UN agencies.

What did delegates say about the key challenges facing countries in the South as they try to raise the quality of public sector management? Bringing together the many voices that were heard on these issues is the following summary by Kristinn Helgason, Technical Advisor in the UNDP Management Development and Governance Division, Bureau for Development Policy.

CHANGES IN THE WORLD'S economic, political and social systems have brought unprecedented improvements in human living conditions, in both developed and developing countries. However, these changes are also bringing new uncertainties and challenges as the world enters the 21st century. Signs of breakdown are everywhere: disintegration of families; destruction of indigenous societies; degradation and annihilation of plant and animal life; pollution of rivers, oceans and the atmosphere; crime, alienation and substance abuse; higher unemployment; and a widening gap in incomes and productive capabilities.

At national level, States face a triple task. First, they need to continue building a domestic social and economic environment that is more secure, stable and equitable, particularly for the most vulnerable population groups. Second, they want to take advantage of opportunities for increased production, trade and income offered by globalization, while balancing against the danger of being swamped by it domestically. Third, they have a stake in numerous international governance structures and standards which are emerging to deal with such shared local and global con-

cerns as the environment, crime, narcotics, transnational corporations or labour migration.

The need for effective governance at national and international levels has never been greater.In fact, the attainment of economic and social objectives by developing countries will largely depend on their ability to strengthen their governance institutions and processes. It is against this backdrop that the United Nations Development Programme (UNDP) decided to convene the International Conference on Governance for Sustainable Growth and Equity.

The Conference had two special characteristics. It brought together a cross-section of the national participants in national governance — the very voices and partners which must be involved in any effort to rethink, reform, and improve governance. And it invited them to share experience and ideas about how to change the role of the State, strive for gender equality and strong community participation, decentralize governance, build partnerships with local businesses, and share best governance practices through TCDC.

Changing Role of the State

To what end and in what ways should public sector management be redefined, reshaped and improved? This question was the focus of the Ministers/Senior Officials Forum. In seeking answers, the delegates considered case studies of experience in New Zealand, Poland and Uganda.

"Crucial to the new politics is the re-definition of the role of the State. The State, as is increasingly understood, is not the creator of wealth, but facilitator and catalyst of development."

Kofi Annan
UN Secretary-General

New Zealand

The model followed by New Zealand in its public sector reform was examined for its potential applicability to developing countries. Exponents of the model argue that Governments have become overextended, poorly focused and involved in activities where they have no legitimate role, resulting in poor performance in core areas. They insist that good governance is far more critical to the well being of people and nations than natural resources, culture, geographic size or location. For better governance to take effect and be sustained requires a well-established and well-maintained legal framework which encourages the growth of a strong civic culture and the private sector.

According to the New Zealand model, the primary function of the State is to ensure a stable and impartial legal environment. In addition, it should provide a narrow range of public goods and social safety-nets for those unable to support themselves. Governments should focus on outputs, while allowing the public service sector maximum flexibility to determine how these

NO STANDARD PRESCRIPTION

IN HIS WELCOME ADDRESS, James Gustave Speth, Administrator of UNDP, stressed that the need for capable governments and for enhanced intergovernmental cooperation to address shared challenges has never been greater. We live on a planet which increasingly represents not one world but two worlds, where economic stagnation has affected 100 countries, reducing the incomes of 1.6 billion people over the last 15 years. If this trend is to be reversed and sustainable and equitable development is to be achieved, good governance is critical.

Good governance is also essential if countries are to have the capacity to control their destiny in a world characterised by globalization and liberalization, social and economic problems that cross borders, the ascendancy of democracy, and major changes in the global political environment. Good governance, however, cannot be a standard prescription. Nowhere is the idea of one-size-fits-all less appropriate. While the fundamental principles are universal, their application must vary from country to country.

are best achieved. Regulatory functions should be isolated into separate agencies. The commercial functions of government in state-owned enterprises should be completely different from other government departments and should operate very much as private enterprises. Mechanisms for institutionalising prudent fiscal behaviour are also necessary, including the requirement to run balanced budgets.

Ministers and senior officials from developing countries generally appreciated the principles in the New Zealand public sector reform. But some felt that local political and economic circumstances often prevented such a comprehensive approach. Two key constraints were raised. First, the private sector has not developed enough so that the public sector can begin to relinquish responsibility for service delivery. Second, large complex societies were seen to require a longer time span and a cascading approach to ensure that increases in income and literacy are mainstreamed into the reform process.

Poland

Public sector reform in Poland showed it is very important to create a strong and cohesive team with a clear leader to oversee public sector reforms. Team members and their leader should have strong positions within the structures of government.

From the Polish experience, there appear to be four main enabling factors that facilitate success in economic and financial reforms:

- a high and sustained level of economic growth
- a reasonable level of security, including social security and

property rights
- the creation of a policy environment conducive to savings
- citizen participation.

Of these, the most important is economic growth. To revive growth, it is important to downsize the State and ensure the independence of the institutions needed to create foundations for such growth. This includes institutions to ensure sound monetary management, secure property rights and contracts, and an effective judicial system.

In addition, it is very important for the State to strengthen its analytical capacity, particularly its ability to think globally. Institutions with such roles should have a very strong position within the structure of government, shielded from political pressure. The transition from the status quo to the desired reforms will require two main processes: downsizing the government and strengthening the basic functions of the State.

The most important and interrelated aspects of downsizing are privatization and liberalization. Liberalisation cannot take place without downsizing or privatizing the state. Due to special interests and the fear of losing employment, the process of privatisation and liberalisation is bound to be difficult. It is very important therefore to move fast and take the first opportunity to initiate reforms after a political breakthrough or crisis. Special privatization programmes can also be used to increase the popularity of the downsizing process. For example, using revenues gained from privatisation for reform in other sectors like education, health or pension can bring massive participation in privatisation. Effective communication to citi-

"Without capable individuals at the service of the State, you cannot have a capable State."

Prof. Leszek Balcerowicz, Deputy Prime Minister and Minister of Finance, Poland

NO OVERNIGHT TASK

IN HIS INAGURAL ADDRESS, Kofi Annan, Secretary-General of the United Nations, emphasized that good governance cannot be imposed, either by national authorities or international agencies. It cannot be created overnight, nor can it take root in one day. Good governance is an accomplishment. Without good governance, the rule of law, predictable administration, legitimate power, and responsive regulation, no amount of funding, no amount of charity will set us on the path to prosperity. An essential function of the State is to provide an enabling environment in which investment can take place, wealth can be created, and individuals can prosper and grow. Good governance demands the consent and participation of the governed and full and lasting involvement of all citizens in the future of their nations.

PARTICIPANTS AND ORGANIZERS

THE CONFERENCE on Governance for Sustainable Growth and Equity was organized by the United Nations Development Programme (UNDP) in collaboration with a number of United Nations organizations, international nongovernmental agencies, and other institutions. Held in New York 28-30 July 1997, the Conference was structured in four parts to give full play to the ideas and experience of its main groups of participants.

GROUPS	ORGANIZERS
• Ministers Forum	• UN Department for Economic and Social Affairs
• Parliamentarians Forum	• Inter-Parliamentary Union (IPU)
• Mayors Dialogue	• United Nations Centre for Human Settlements (Habitat) and International Union of Local Authorities (IULA)
• Civil Society Organizations Workshop	• International Council of Voluntary Agencies (ICVA) and CIVICUS (World Alliance for Citizen Participation)

In addition, special discussion panels were prepared by Columbia University, International Institute for Democracy and Electoral Assistance, Rockefeller Foundation, UNICEF, UNIFEM, and UNDP Gender in Development Programme, UNDP Public-Private Partnerships for the Urban Environment, United Nations Centre for Human Settlements (Habitat), UN Department for Social and Economic Affairs, and World Bank.

sens through mass media is a key element in the success of reforms. It is also vitally important to attract the most qualified individuals to the reformed state agencies.

Africa and Uganda

Delegates expressed the strong belief that the whole of Africa needs public sector reforms, and that African States have generally become involved in too many activities which impede the performance of their core functions. Six priority areas for public sector reforms in Africa were identified: right-sizing the civil service; privatizing state corporations; decentralizing and rationalizing government structures; re-tooling the civil service; upgrading the standard of personnel management; as well as reducing the power distance between managers and subordinate staff in ministries.

In Uganda, a special Ministry of Privatization has been set up to put these measures into effect and to focus on the privatization process, and an indepen-

Although starting points of countries in terms of economic development are different, the same modern tools for public management are applicable in all countries.

dent firm has been hired to disseminate information on the benefits of privatizing so as to generate public support. For example, in his budget speech for 1997, Uganda's Minister of Finance, revealed that the overall employment in the privatized industries rose by 11 per cent; salaries were increased in more than 75 per cent of the privatized enterprises; production increased by 88 per cent, with some companies achieving a 500 per cent growth; and 78 per cent of the privatized companies had started to pay taxes to the government. The experience from Uganda and other countries in Africa confirms the importance of appointing an independent commission to oversee publicsector reforms.

In addition, it was stressed that countries must address the new governance issues of globalisation, in regard to new international agreements, global institutions and standards, through the levying of user-fees on commercial exploitation of the global commons—oceans, atmosphere, space, electromagnetic spectrum, and global financial cyberspace—as well as fines and taxes on the abuse of those resources. Global markets must be regulated more effectively, and an international institution needs to be established to ensure harmonization.

Balancing powers and building democracy

In the Parliamentarians' Forum, it was emphasised that the three powers—executive, legislative, and judiciary—should be separate but work in a coordinated way. This 19th century principle has been adopted by most western democracies, though its form and application may vary between countries. As we approach the 21st century, the democratic form of government will largely depend on the constructive interaction and clear division of responsibilities between the powers of the State.

Regarding the executive branch, the relative authority and political influence of the Head of State is a key issue. If the executive branch has excessive power and the legislative and judicial branches are able to control it, that is a negative factor which affects the flourishing and growth of a democratic State.

A challenge to developing democracies is that people's participation in the democratic process tends to be more abstract than real. When parliamentary representation is not real, the executive branch will lack credibility, and the judiciary will be affected as well. This can create a 'vicious cycle' that breeds the culture of corruption, trickery, violence and selfishness.

A system of controls and oversight is an important pre-condition for the effective functioning and balancing of the three powers. The quality of this system has a key role in determining how effectively public affairs are managed in any society. Based on an outstanding Nordic tradition, Argentina has established the Office of Ombudsman which reports to Parliament and protects citizens' interests in the face of any government act that violates their fundamental rights. Another important control mechanism in Argentina is the Office of the State Auditor General, whose head is appointed based on the

recommendation of the opposition leader in Parliament. Political parties also play an important role in parliamentary oversight, and should themselves employ good democratic principles in their own internal organization and in the selection of candidates.

The other major concerns expressed in the Parliamentarians Forum include corruption and coercion in the conduct of elections; proliferation of political parties, which make appropriate oversight difficult; executive decrees that circumvent parliament and the judiciary; and, in some cases, excessive parliamentarianism.

Gender Equality and Governance

In the Ministerial/Senior Officials Forum, it was argued that state interventions on issues of gender equality were limited in their effectiveness because customs and traditions often undermine rules and regulations. First and foremost, delegates observed that gender equality requires a fundamental change in traditional values. The involvement of women in decision-making at all levels in both developed and developing countries is insufficient because many traditional values and attitudes do not encourage it. Education that makes women more capable and confident of filling leadership roles, was seen to be an essential precondition for enhancing their position.

To improve upon traditional biases against women, constitutional amendments in India mandate that one-third of local government representatives should be women, bringing hundreds of thousands of women into the political arena. A greater devolution of power to local levels and concerted efforts to work with civil society organisations have likewise had a positive effect on women's empowerment in India. Also the opening of the economy and attempts to make governance more transparent and accountable have increased opportunities for women.

Participants in the Ministerial/Senior Officials Forum generally agreed that social norms and legal impediments prevent gender equality from being achieved in many countries. While legal and political reforms are needed, they often do not achieve the desired results because of deep-rooted social attitudes about the role of women in society. Sensitization programmes are needed to change these behavioural patterns.

Similar points were made in the Parliamentarians' Forum. Though most countries provide for equal opportunities for women in their laws, reality is often quite different. Cultural stereotypes in many societies do not project women as decision-makers or equal participants in the workplace. However, many delegates said that political parties can play a constructive role in fostering gender equity by ensuring parity between men and women, possibly generating a multiplier effect on the whole society. In some European and Nordic countries, women hold up to 40 per cent of the political posts, but the percentage is much lower in developing countries. An important factor in maintaining the gender stereotypes is the media. Changing people's attitude

towards the role of women in society will therefore require a more honest portrayal of women in the media.

It was also stressed that in order to change women's perceptions of themselves, it is very important to enhance the education of the girl child. Civic education for society at large, including political leaders, is also crucial to encourage the election of women to leadership positions. Evidence suggests that there is a close relationship between the small number of women parliamentarians and the high number of women in poverty. Until the representation of women is increased significantly in more countries, there will be need for a quota system and affirmative action programmes. Parliamentarians also need to ensure that gender considerations are incorporated in the national budget as a powerful tool that can be used to transform societies.

"When countries have achieved a 30-50 per cent women representation in parliaments, quota systems and affirmative action programmes could be withdrawn."

Phoebe Asiyo,
Kenya parliamentarian

The issue of quotas to enhance women's representation was heavily debated in the Parliamentarians' Forum. A concern was raised that quotas might compromise democratic principles and the quality of representation. However, most participants agreed that quotas should be used, at least, as a temporary measure in fostering gender equality. There was consensus on the need to reinvigorate countries' commitment to the objectives of the Beijing Conference. Delegates felt that changing traditions and cultural impediments will take a long time, but should begin at an early age in the school system, where girls should be deliberately trained for leadership in society. Women should also be encouraged to seek senior positions in mass media organisations to influence media presentation of women's role in society.

Civil Society and Participatory Development

Delegates taking part in the Civil Society Organizations Dialogue shared the view that a differentiated and active civil society is central to good governance in all cultures and societies. There was consensus that developing countries need to develop policies and legal norms to facilitate the growth of CSOs. Bolivia is perhaps the first country to pass a law for popular participation and to put in place a national system for community participation.

It was recognized that CSOs will be most effective when there are national democratic institutions that ensure political competition, rule of law, and transparent and accountable administration. Important enabling conditions for the formation and growth of civil society include freedom of association, expression and the press, laws and regulations that create a space for citizen participation, and a supportive tax code. There is need to move beyond

massive pendulum shifts between top-down and bottom-up approaches to a model of development that focuses on the integration of the two approaches.

Many delegates emphasized that non-governmental organizations (NGOs) have a crucial role in empowering and supporting the poor. This is because the present state institutions are not able to keep pace with the social problems that develop rapidly, spontaneously and in complex forms at various levels and scales in cities and rural areas. Despite extensive assistance from international agencies to build up state capacity to deal with these problems, the results have been meager to say the least.

The political, social and economic context in which CSOs operate has changed dramatically in the last decade. Some CSOs have been unable to adjust and have therefore slowed down or collapsed. CSOs that have survived are one that have reformed from within, and acquired the necessary technical, communication and negotiation skills to convince the government of the need to reform. Real changes in society, however, will only happen if the citizens agree on the need for change and are willing to alter their own behaviour and values. The challenge is therefore to create social transformation through popular participation in the reform process. The change process has to start from within civil society and evolve into a movement that can influence the policies of the government. The reform process requires close linkages between people, their CSOs, and intermediary institutions that can advocate policy changes at local and national levels.

Examples of popular participation from several continents were discussed, including:

- **The Philippines.** The drafting of the new national Philippine Constitution in 1986-1987 was a collaborative work undertaken between the Government and civil society, with wide popular participation in the political process. The new Constitution institutionalised people power and gave civil society a definite role in the life of the nation.
- **South Africa.** The drafting of its new Constitution drew on the tradition and experience gained during the years of struggle for liberation. Public meetings were organized all over the country where citizens could raise their concerns and articulate their priorities for development. A public education programme, utilising the Internet, toll-free numbers and public forums were organised, resulting in more than two million individuals and organisations participating in the drafting process. A code of conduct has subsequently been agreed for parliamentarians, and the parliament has instituted special educational programmes to enhance the awareness of citizens of its work. Parliamentary meetings are open to the public and the media, and constituency offices have been established in different parts of the country.

- **Latin America.** The establishment of democracy in Latin America was credited for increased participation by citizens, enhanced protection of human rights and the integration of guerilla movements into democratic society. However, democracy has only brought modest economic and social gains and has not led to improved environmental and natural resources management in the region. It is also an important challenge for Latin America to improve the quality of its political parties and leadership.
- **Mexico City.** Public participation in devising solutions to Mexico City's problems had been limited mainly because the political system fostered clientelism, patronage and favouritism in public management. At the heart of the reform in Mexico City is a sincere effort to transform the city into a space where citizens can relate to each other in a dignified and productive way. The central problem of societies with weak or emerging democratic cultures is that they suffer from a great absence of participatory civil society and mechanisms to facilitate such participation.

Some participants argued that encouraging CSO formation and growth was becoming ever more difficult due to wide disparities in income distribution in most countries. Donors and external agencies could help by engaging national governments in policy dialogue about CSOs and about developing institutions that provide a formalized space for all stakeholders to participate in decision-making.

The transformation of CSOs from adversaries of government to collaborators and partners in development offered both risks and opportunities. Before entering into a policy dialogue with the government, CSOs should have clear objectives. Proper groundwork, research, analysis, access to information and close relationship with the media could also be invaluable in strengthening the leverage of CSOs in such negotiations.

The Parliamentarians' Forum reached a consensus that only democratic systems can foster economic and social development. But if democracies are to be built and the rule of law is to prevail, two types of problems must be overcome. First, society must be structured to provide ample opportunities for citizens to participate in the democratic process. The second problem is that people have a negative perception of the State and thus low interest to participate in public problem-solving. Here, parliamentarians need to make concerted efforts to enhance popular awareness regarding the complexity of public tasks. Another problem is that the media, with their large influence on public opinion, do not seem to be contributing to deepening democracy or encouraging citizens to participate in political life.

Greater involvement of civil society in the legislative process would deepen democracy in their respective countries, many parliamentarians said. This would require intensive communication, including the use of modern technologies,

to link parliamentarians, citizens and representatives of civil society in the task of exploring public support for new legislation. The cost of running for public office was also of concern to many participants. Some countries have opted for public funding to political parties to ensure adequate representation in parliament.

A study by the International Institute for Development of Electoral Assistance (IIDEA), shows that high voter turnout occurred in a variety of democratic settings. Of the ten countries registering the highest voter turnouts in the 1990s, only three were western democracies (Malta, Iceland and Italy). The study revealed a strong correlation between a country's Human Development Index (HDI) and voter turnout: the higher the HDI, the higher the turnout. Countries in the top fifth of HDI rankings have an average voter turnout of 72 per cent, while those in the bottom fifth average 56 per cent.

Cities, Decentralisation and Local Governance

The next century will be the century of cities because of the rapid expansion of urban population world wide. It was emphasized in the Mayors Colloquium that cities are deeply interconnected with the global economy. Cities that cannot provide adequate physical and communications infrastructure and control crime and violence will not receive investment and other potential benefits accrued from economic globalisation.

It was emphasised that, it was imperative for cities to have a sound structural base that knits the urban core to its suburban regions, in order to achieve a balance between solidarity—a broader shared perspective, common values and priorities—and subsidiarity. There was a concern that the growth of cities is mainly taking place in the outlying suburban areas, while social needs are concentrated in the core. This trend—sub-urbanisation of people and better paying jobs—is one cities can no longer afford. Subsidiarity should not lead to the fragmentation of overall decision-making and chaos. If all decision-making goes down to the lowest possible level, citizens will not be able to relate to the urban whole. So achieving the right structural format was seen to be critical. Competition between cities within a given economic region can also undermine the region's capacity for economic growth and social cohesion all too quickly.

It is only through visionary leadership that cities will transform themselves and continue to do so.

In an age of economic globalization, cities will become centres of integrated economic activities. All business networks require a strong hub, and that is where cities come in. Some analysts have begun to proclaim the end to cities as we know them because of advances in telecommunications and the ascendance of information industries. However, these new industries will also demand ever-increasing numbers of well-trained personnel, providing cities with new opportunities for growth in a

globalizing economy. Cities can become centres of innovation, experimentation and democracy. However, the first task is to enhance civic, political and cultural education to transform people from being mere consumers and users of cities into genuine citizens in the fullest sense of the word. Cities have to become centres of good governance, democracy, modern efficiency and equity.

The Mayors identified a number of issues that should be on the urban agenda for the next millennium. For example, corruption and the influence of vested interests in local politics were said to be a serious problem in some countries, particularly south Asia. Energy policies and the serious underpricing of fossil fuels foster unsustainable expansion of motorized vehicle use, which has heavy urban impact. In public transport, it was suggested that countries emulate the policies of Singapore.

In the North, local governments typically account for 40 per cent of national public spending, while in the South, it may be as low as 2 per cent.

The notion of democracy that has spread to Africa in the last decade must also take root at the local level urban centers. Although the power of local authorities has recently been increased in some countries, the quality of life for most citizens will not necessarily improve unless the quality of local governance is significantly enhanced. For good governance to prevail in African cities, they must be made technically proficient and more independent financially and judicially.

In South Africa, the key challenge facing many local governments is the great imbalance in economic and social development between various municipalities within a city's jurisdiction. Some municipalities are not able to provide basic services to their citizens, due to weak administrative, financial and technical capacity, while others have an infrastructure at par with cities in the developed world. In South Africa, the budget is subject to community input and participation. Members of civil society are also organised into structures called 'Community Development Forums', engaging in a constant dialogue with government representatives. An important challenge in managing large metropolitan areas is to strike a delicate balance in the use of financial transfers to ensure that high levies do not hamper investment and economic growth in the more advanced areas.

Decentralization of political authority and financial capacity remains an outstanding issue in local governance throughout the world. Could the UN help establish criteria to measure and compare progress toward decentralization? Such criteria could provide local governments with ammunition for negotiating with central governments about the pace and degree of power sharing. Concerns were also raised about national patterns of urbanization and whether mega-cities dominating the national urban system was the only

model to follow. Others suggested the establishment of regional networks of smaller cities or the creation of intermediate-size cities.

Government-Business-Citizen Partnerships

A new trend in urban management involves building collaborative partnerships between government, business and civil society, as shown by examples from the Philippines, India and Brazil.

- **Cebu City in the Philippines.** The city government has established a number of partnership programmes with citizens and the private sector. The Urban Basic Services Programme, which aims to improve the delivery of services to the vulnerable segments of society, was created by 12 government agencies, 29 civil society organisations and six people's organisations. The Cebu Investment Promotions Centre, set up by the City in cooperation with forty of the largest corporations, has attracted a number of internationally known companies to Cebu City. Citizens concerned about sustainable management of water resources in the Cebu watershed have formed a partnership with the local government to develop a master plan for water resources' management, including the mobilization of international support.
- **Ahmedabad, India.** A new spirit of partnership between the city government, citizens and the private sector has transformed the City in three years. Each of the main partners contributes a third of the costs. Though many thought that residents would not contribute to urban improvement projects, the experience has been that residents often pay an advance and pressure the city government to complete projects. Implementation of a US$125 million slum improvement project covering 300,000 households has been given to the private sector. This trust and credibility has also allowed the city to raise water charges by 200 per cent and bus fares by 28 per cent — actions that were unthinkable before.
- **State of Parana, Brazil.** Experience here reveals that responding to urban challenges is not solely an issue of financial resources, but more importantly the organization of responsibilities between different actors. Creative and cost-effective solutions to most urban problems abound. For example, for an investment of only $250,000, one city in the Parana managed to clean up its polluted bay by paying local fishermen for collecting garbage while fishing.

The Mayors Colloquium agreed that the critical enabling conditions for strong government-business-citizen partnerships include a strong legislative and regulatory framework, public education, awareness and participation, intermediary structures for consultations and decision-making, resource

mobilization and the crucial role of leadership.

In the Civil Society Organisations Dialogue, it was also argued that the sum total of the collective contribution of the three domains, government, private sector and civil society, would be much higher if all parties worked together rather than independently.

A new spirit of partnership between the city government, the private sector and citizens has transformed the city in three years.

Keshav S. Varma
Commissioner, Ahmedabad

CSOs have a central role in promoting sustainable development and have assumed increasing responsibilities that traditionally belonged to the State. For example, hospital and medical costs in many developing countries have increased significantly and beyond the purchasing power of most poor people, due to the impact of structural adjustment programmes. Because of the failure of public programmes in this area, church and affiliated institutions have had to move in and provide essential services. The St. Helen Project in Wales, the Sustainable Cities Project in Seattle, United States, and the Sustainable Cities Project in Dar-es-Salaam, Tanzania, were mentioned as good examples of partnerships between the three domains of governance. However, despite the advantages of partnership, it is still an elusive goal in many countries, particularly in developing countries, due to entrenched practices and norms.

Some participants in the dialogue felt that CSOs need to develop a more convincing argument for the private sector to collaborate. The green movement, for example, is doing excellent work in convincing the private sector that firms can be more economically profitable by reducing emissions and waste, while at the same time improving the quality of life for citizens. Incentives need to be created for the private sector to enter into partnerships with the various parts of civil society. That's where real progress needs to be made. However, due to the increasing complexity of public management, the state does not have the resources nor the capacity to process all the information needed to ensure effective and efficient allocation of public resources. Therefore, the private sector and civil society will have to be called upon to undertake many of the current tasks of the state. Successful partnerships now as in the future are built on key principles: mutual trust, transparency, accountability, equity and gender equality.

Major Priority in Governance for the South

At national level:

Strengthening the capacity of the state to govern and enhancing the quality of public sector management were singled out as the major priority for countries of the South. This is particularly important because of the diminishing resources available for many public services in almost all countries and the new trends of globalisation and

liberalisation. This growing inability of the State to meet the needs of citizens will also require more emphasis on prioritization and the effective and efficient allocation of existing resources. Those States able to restructure their public sector will be in a much better position to derive benefits from globalization and liberalization, as well as to provide the necessary social safety nets for citizens in real need.

Countries of the South face five key challenges in strengthening the capacity of the State to:

- design and maintain a sound legal framework that promotes property rights and security of contracts and an effective and transparent judicial system;
- build a credible public administration and regulatory capacity, including the ability of the State to think strategically, analytically and globally;
- engage in a constructive interaction with the private sector and civil society to maximize the use of public resources and to promote citizen participation;
- provide safety nets for those in need;
- design effective oversight and control mechanisms.

Public sector reforms are bound to be difficult because of the many vested interests involved. However, countries that succeed in reforming the public sector seem to share a number of characteristics. Generally they:

- carefully select the timing to launch reforms;
- maintain a delicate balance between emphasis on high economic growth and social justice;
- create a cohesive team with a clear leader located close to the centre of power;
- use special privatization programmes to increase the popularity of reforms;
- effectively disseminate the benefits of reforms to the public;
- build short and medium-term results into the design of reforms;
- identify highly qualified individuals for key posts in the reformed public sector.

At South-South level:

A number of countries in the South have developed considerable capacity to initiate and implement public sector reforms. If effectively shared at the regional, sub-regional or bilateral level, this knowledge could make a major difference in economic development at the national and regional levels and thereby promote increased trade and interdependence for the benefit of all countries. Many participants felt that UNDP and other multilateral and bilateral agencies should increase their efforts to facilitate and foster such exchange of experiences and best practices. ■

Multilateral Agreement on Investment (MAI): Policy Implications for Developing Countries

BY MARTIN KHOR

WORLDWIDE INTEREST and controversy on foreign investment policy has been sparked recently by the proposal of some developed countries to introduce a legally binding regime on foreign investment. This is taking place in the World Trade Organization (WTO) and the Organization of Economic Cooperation and Development (OECD).

Martin Khor analyses the proposed multilateral agreements on investment and discusses their implications for developing countries. He is the Director of the Third World Network based in Penang, Malaysia.

AT THE WORLD Trade Organization (WTO), some developed countries, led by the European Union (EU), are attempting to introduce a Multilateral Investment Agreement (MIA). At another level, a Multilateral Agreement on Investment (MAI) is being negotiated by the OECD member countries, which OECD later plans to open for other countries to join. The acronyms shift from MIA to MAI, but the two models are basically the same.

The MAI aims to protect and advance the rights of international investors vis-à-vis host governments and countries. The main elements are:

- The right of entry and establishment of foreign companies to enter and establish themselves in almost all sectors of a country, except security. This means that a government will lose its authority to determine which foreign investor it would allow or disallow from entering the country.
- The right to full equity ownership. This means that a government would not be allowed to require foreign companies to allow a portion of their equity to be locally owned, or form joint ventures with local firms or the state.
- National treatment. This means that a foreign company would have to be treated on equal or better terms than a local company, and that governments could not give more favourable treatment to local firms—for example, in granting contracts, allowing local banks to set up more branches, etc.

- Removal of the many regulations and conditions now imposed on foreign companies by host governments (e.g. movement of personnel, performance requirements, allowing foreign firms to take part in privatisation projects).
- Protection of foreign investors in regard to discrimination, intellectual property, expropriation, compensation, transfer of funds, and taxation, and full compensation if asked to close or taken over;
- Establish a dispute settlement system to make the agreement legally binding and enforceable.

The MAI is therefore very biased in vour of foreign investors' rights. Barri- s would be removed to allow interna- tional companies to cross borders, set up projects or buy up local companies. Under MAI, they would face minimal or no regulations in host countries as to conditions for the establishment, ownership, and operation of business, as well as the repatriation of profits and capital. Moreover, the MAI would impose no obligations on the foreign investor to respect the sovereignty or social and development objectives of host countries.

But host governments would have many new and heavy obligations towards foreign investors. MAI would very significantly narrow, reduce and constrain the rights, authority, degree of freedom and policy options of host countries and governments in the following economic

BASIC DATA ON FOREIGN INVESTMENT AND TNCs

Global foreign investments amounted to US$349 billion in 1996, representing 10 per cent growth on top of the all-time peaks in 1994 and 1995. This rate exceeded annual global growth rates for gross national product (6.6 per cent) and international trade (4.5 per cent).

The scale of economic globalization is much greater, as measured by the activity levels of transnational corporations (TNCs).

- There are 44,000 TNCs in the world, with 280,000 subsidiaries
- Their annual turnover is $7,000 billion.
- In 1996 they invested $ 1,400 billion in countries where they were already active.

TNCs generate two-thirds of world trade.

- They controlled almost 33 per cent of world gross domestic product in 1995.
- Fifty-one of the world's largest economies are in fact TNCs.
- Almost every sector of the global economy is controlled by a handful of TNCs.

Sources: UNCTAD figures, MAI briefing paper by Corporate Europe Observatory - CEO (Amsterdam, Feb. 1998)

areas: policy on foreign investment and investment in general; macro-economic management; policy and performance on trade, current and capital account and the balance of payments; development planning; policy on the balance of ownership of equity and assets between foreigners and locals and amongst various communities within the country; and growth and development policy at sector level (industry, agriculture, trade, finance and other services). Local firms would lose their present rights to receive more favourable treatment from their governments and to be protected from bigger foreign firms so as to survive and develop.

As the proposed MAI would cover almost all sectors (defense being an exception), the narrowing or loss of policy options in host countries would also apply to social sectors and services. This could have significant implications for social and cultural policy and practices.

RESPONSE TO MAI FROM ASIAN COUNTRIES

In March 1996, a workshop was organised by the OECD Secretariat in Hong Kong to explain the MAI to 12 selected "dynamic developing countries". Most of them were from theAsian region, including China, India, Malaysia, Indonesia, Korea, Singapore, and Hong Kong. Participants from some key Asian countries were cool and generally unfavourable to the proposed MAI. They raised several concerns and objections on the substance, procedures and institutional context of the proposed rules.

As explained by OECD officials, main goals of the MAI are to liberalise the terms of foreign investment, protect foreign investors' rights, and establish a legally binding dispute settlement system. They kept stressing that the MAI was aiming at "high standards" of investment liberalisation and investor protection—far higher than exist even in OECD countries.

"If this MAI is intended for global accession, then it has to be a global process and all countries need to be more directly involved."

The most interesting feature is that MAI, though initiated by and negotiated amongst OECD countries, is actually intended to be of a global nature, open to all countries to join. Most non-OECD participants were critical of not having been invited to participate in the establishment of the MAI. The chairman of Malaysia's Industrial Development Authority, Mr. Zainal Abidin Sulong, said "whatever we say won't affect the process much." He explained that Asians are sensitive to how they are drawn into a process, and there is considerable discomfort when they are asked to accede to a treaty without being given an opportunity to get directly involved in its shaping. The process could even be seen as objectionable—the equivalent of "accede without representation." He concluded that "If this MAI is intended for global accession, then it has to be a global process, and all countries need to be more directly involved."

More generally, Mr. Zainal saw problems arising from the contrast in Western and Asian approaches to negotiations.

CD took a top-down approach to MAI, while the Asia-Pacific region ferred a bottom-up approach. The namic growth of the Asia-Pacific ion is based on a highly pragmatic proach towards resolving problems and ceeding to the next stage. Regarding OECD proposal, Mr. Zainal believed Asia-Pacific region would want a re evolutionary and not a regulatory proach, and could be expected to have negative response to MAI.

Another objectionable point was that e MAI is supposed to achieve a "high andard", and this had been cited as he reason for continuing negotiations OECD countries. The worrisome ssumption seemed to be that if non-ECD member countries were involved, andards would have been compromised.

Mr. Zainal stressed that there were wo sides to the issue of investment. Since the entry of foreign firms could also have an effect on domestic firms, there is a local concern regarding global liberalization and a domestic dimension to foreign investment. Both aspects had therefore to be considered. The issue, said Zainal, "is not investment liberalisation per se but the effective and mutually beneficial management of this liberalisation".

Participants from other Asian countries also raised similar concerns about the MAI process. In addition, they questioned whether the contents of the proposed MAI would be advantageous to developing countries. An Asian participant said that the MAI stressed the rights and interests of foreign investors, but had nothing to say on the rights of host countries and the obligation of investors to observe the laws of host countries. She insisted that the protection of a host country's interests and rights and observance of domestic laws should be a crucial part of an investment agreement.

She agreed with the general view that foreign investment plays a positive role. However, each country has a different situation, since countries are at different stages of development. Each country has the right to set up its own investment regime based on its own social and economic conditions. Although a lot had been said about the need for a MAI with "high standards", what was more important was a balanced, successful agreement, acceptable to most countries. She said, "If an agreement is of high standard but is not acceptable, then it would not be a good or successful one. The MAI should look at the rights of both sides. If only one aspect is stressed, things will go wrong."

MAI seems to lack balance. It would grant rights to investors without placing any obligations on them, but place obligations on host countries without giving them any rights.

Participants from two other ASEAN countries shared the view that MAI seemed one-sided. One of them said that an agreement usually involved a quid pro quo. On the one hand, MAI seemed to grant rights to investors without plac-

ing any obligations on them. On the other hand, host countries would have obligations but no rights. This shows the lack of balance between the interests of investors and host countries.

Not all non-OECD countries were so skeptical. Participants from Hong Kong and Argentina were strongly in favour of the OECD's MAI process, while participants from a few other countries appeared to prefer a wait-and-see approach.

NEED FOR NATIONAL REGULATIONS AND POLICIES ON FOREIGN INVESTMENTS

The major issue in regard to the MAI or the MIA is not whether foreign investment is good or bad, welcomed or unwelcomed. The real issue is whether national governments should retain the right and power to establish policy instruments, options and regulations covering investment, including foreign investment.

Most countries presently accept the importance of foreign investment and are trying their best to attract foreign investors. However, there is evidence that foreign investment can have both positive and negative effects. A major objective of development policy is to maximise the positive aspects while minimising the negative, so that, on balance there is a significant benefit. Experience shows that, for foreign investment to play a positive role in economic and social development, governments must have the right and power to regulate its entry as well as the terms and conditions of its operation. The key problem is that the proposed MAI would remove these government rights and powers. By doing so, the negative aspects of unregulated and uncontrolled foreign investment inflow could overwhelm the positive aspects.

Most developing countries now have policies that regulate the entry of foreign firms, and include various conditions and restrictions governing foreign investment in general and on a sector-by-sector basis. Few countries (if any) have adopted a policy granting total right of entry. In some countries, foreign companies are not allowed to operate in certain sectors, for instance, banking, insurance or telecommunications. In sectors where they are allowed, foreign companies have to apply for permission to establish themselves, and if approval is given it often comes with some conditions.

Of course the mix of conditions varies from country to country. They may include equity restrictions, for example, a foreign company cannot own more than a certain percentage of the equity of the company it would like to set up. There may be ownership restrictions, for instance, foreigners are not allowed to own land or to buy houses below a certain price.

Many developing countries also have policies that favour the growth of local companies. Tax breaks may be available for local companies, but not to foreign firms. Local banks may be given greater scope of business than foreign banks. Local firms may be given preference in the allocation of government business or contracts.

Generally, governments base such policies and conditions on national sovereignty, holding that a country should control at least a significant part of its

MALAYSIA: DOMESTIC SOCIAL OBJECTIVES AND FOREIGN INVESTMENT POLICY

Malaysia has combined liberalisation and regulation in a policy mix that can be fine-tuned according to the country's economic conditions and development needs. Flexible policies were especially needed to redress social imbalances among ethnic communities in the country. Without such policies, it is doubtful the country could have attained the social stability that underlay its high economic growth.

In 1970, 13 years after independence, the foreign share of equity was still 70 per cent; the share of the majority Malay community, with 55 per cent of the population, was 1 per cent; and the share of non-Malay citizens was 22 per cent. Then a new development policy was introduced, requiring foreign companies to orient Malaysia on a pro-venture basis. Terms were set that 30 per cent of equity went to locals, and of that 30 per cent to the Malay community.

As a result of differential shares of growth going to different communities, the shares of equity have changed dramatically. The foreign share is now around 35 per cent, the Malay share has grown from one per cent to 20 to 30 per cent, and the share of non-Malay citizens is about 25 per cent. Such an outcome would not have been possible if there had been curbs on investments as are now being proposed in MIA and MAI.

own economy. Or the policies are motivated in the interest of national development, considering their local firms need special treatment at least for a time until they can compete with more powerful and better endowed foreign companies.

Moreover, most developing countries would argue that during the colonial era their economies were shaped to the advantage of foreign companies and financial institutions, usually belonging to the colonising country. Local people and enterprises were therefore at a disadvantage, and currently require considerable time and special treatment before they can compete on more balanced or favourable terms with bigger foreign companies. This has been the central rationale for developing countries' policies in applying restrictions or imposing conditions on foreign investments.

The MAI proposes to liberalise foreign investment flows in a comprehensive manner and would therefore have serious consequences. Governments in developing countries would find that the space for adopting their own independent policies regarding investments and foreign companies will be very severely restricted. No longer will each govern-

No longer will each government have the freedom to choose its own particular mixture of policies and conditions on foreign investments.

ment have the freedom to choose its own particular mixture of policies and conditions on foreign investments. The major policies would be already determined by the multilateral set of investment rules, and the choice available would be very much constrained to more minor aspects.

PROTECTING BALANCE OF PAYMENTS, PROMOTING DOMESTIC DEVELOPMENT

One of the most important effects of the MAI would be that governments will find it much more difficult to control the balance of payments (BOP), and especially to take measures to get out of balance of payments deficit problems. A critical disadvantage or danger of foreign investment is its tendency to lead to a net outflow of foreign exchange and thus have a negative effect on the balance of payments. This is why government policies to regulate foreign investment are important. In southeast Asia, countries like Malaysia, Thailand, Indonesia and the Philippines are now facing large deficits in the BOP current account. On further analysis, it is found that the large inflows of foreign investment have contributed significantly to the deficit.

Take the case of Malaysia. The BOP current account deficit has risen from M$7.4 billion in 1993 to M$17.8 billion in 1995, reaching 9 per cent of the GNP and causing great concern in the country. The main reason for this rising deficit was the increase in foreign investment:

- First, there was a jump in imports of capital goods and intermediate goods by foreign investors, and this had a negative effect on the merchandise trade balance.

According to the Deputy Finance Minister: "The rise in the trade deficit (in 1995) is mainly due to an increase in the import of capital goods brought in by foreign investors. If not for foreign investments in 1995, Malaysia would have recorded a large excess in the trade account." He said foreign investment rose 26 per cent in 1995 to M$20 billion, and imports of capital goods through these investments accounted for M$18.5 billion.

- Second, there was a steep and fast increase in the repatriation of profits and dividends by foreign investors. As the stock of foreign direct investment rises, the stream of "investment income" flowing out also increases rapidly. In Malaysia, the weakness of the BOP is the large deficit in the services account. In 1995, the deficit was as high as M$18.8 billion, or 9.4 per cent of GNP, compared to M$9.7 billion in 1990. Of this, M$13.4 billion was gross investment income of foreign companies, at about seven per cent of GDP value. According to Malaysia's top economic planner, "outflows for investment income payments, particularly repatriation of profits and dividends for foreign-owned companies, is the single major contributor" to the services account deficit.

To counter the impact of profit outflow, one option is to persuade a foreign company to re-invest its profits in the

country. But further reinvestment by foreign firms leads to a higher stock of foreign capital and thus a higher future stream of profits and dividends, which eventually may be repatriated. The dilemma is that present effects of profit outflow are reduced, but even higher streams of profit potentially arise in future. The problem is thus not solved but postponed, and to a potentially higher level.

The more permanent solution is to ensure that foreign investment in the country does not cause large foreign exchange outflows in net terms. Ways of doing this are to welcome foreign firms that export a large part of their products, or give firms permission to enter only on condition that they do not create high foreign exchange losses. Such loss can be avoided, for example, by exporting enough of their products, and by limiting their imports through the use of local inputs.

Some foreign companies enter a country in order to exploit its market, rather than to export from it. This displaces products or services previously provided by local firms, and tends to generate foreign exchange loss and BOP problems. Countries with a large market like China or India will face this problem more, because foreign companies are attracted to producing for the large population and local market there.

To strengthen the BOP, governments need to retain the authority and option to regulate foreign investment, reduce imports of goods and services, and promote exports of local firms and services. These options are already being severely curtailed by the new Uruguay Round rules in the WTO and that the MAI would make the situation worse.

In the past and at present, governments have adopted so-called "performance requirements" under which firms must use specified local inputs, or a percentage of the output value must be locally sourced (local content policy); restrict imported inputs of a firm to only a certain percentage of its export earnings (balancing of foreign exchange policy); restrict a commodity or product from being exported, for instance, by imposing a ban or limiting exports to a certain percentage. All three of these policy measures have been made illegal by the trade-related investment measures (TRIMS) agreement of the Uruguay Round, on the ground that they discriminate against foreign products or foreign trade. Of course, the removal of these policy measures would make it more difficult to resolve balance of payments deficits. Developing countries have five years from January 1995 to implement this rule, though in coming negotiations it may be possible to reconsider the fairness of such prohibitions.

The MAI would make the situation worse. Governments now control the quantity and quality of foreign investment and can limit the percentage of foreign equity, preferring joint ventures so that a share of the profits is retained by locals. Some countries limit the outflow of profits. These measures would be outlawed. Inability to regulate entry will increase the foreign share of equity. Removal of joint-venture arrangements would further raise foreign equity. Together these would raise the foreign

share of profits in the economy. Given international trends, corporate tax is being progressively reduced. If foreign profit outflow is too high and can threaten the BOP or reserves and financial stability, the option of limiting profit repatriation would not be available.

Measures to reduce imports and use of foreign services and to increase use of local products, services and facilities are important for reducing BOP deficits and developing the economy. The enhanced disciplines in the WTO already make this more difficult, and the proposed MAI would make it still more difficult.

Under the Services Agreement (GATS) in the WTO, policies discriminating in favour of local services, facilities or enterprises are not to be allowed. Under MAI, such "national treatment" measures benefitting domestic investors would have to be extended also to foreign investors. MAI would include all sectors and activities that are not specifically excluded. Any "affirmative action" measures that promote local industries or services through subsidies, preferential tax treatment, specified conditions for investment, or even support for Research & Development could be seen as "discriminatory" against foreigners and thus prohibited.

EFFECTS OF FOREIGN INVESTMENT AND CONDITIONS FOR ITS USE

In considering the implications of a MAI, it is important to examine the effects (positive and negative) of foreign investment on developing countries, and the conditions for the successful use of such investments. The question should then be asked whether these conditions for success will be promoted or disallowed under a MAI.

A leading Malaysian economist, Dr Ghazali Atan, has done a study on the effects of foreign direct investment (FDI) on trade, balance of payments and growth in developing countries. The study empirically examines various facets (effects on savings, financial inflows and outflows, trade and growth), which he then builds into a model with equations on each aspect and an equation to capture the total or combined effects. Its main findings are summarized in the table below:

FDI EFFECTS ON INFLOW/OUTFLOW OF FUNDS AND BALANCE OF PAYMENTS

Category of effect:	Positive	Negative
Financial flows	Inflow of foreign capital	Outflow of profit, royalties, and revenues/incomes
Trade flows	Increased export earnings	Increased import of capital goods
	Savings from reduced imports	Increased import of intermediate and consumer goods

The study showed that successful growth in developing countries is premised essentially on raising the domestic savings rate to a high level and productively investing the savings. This is more important than the role of foreign capital (including FDI) which can help supplement domestic savings but also has its downside. There are three types of foreign capital inflows: aid, debt and FDI. FDI has many advantages (bringing in productive capital, foreign expertise, brand names, market linkages, aiding in industrialisation, exports, employment).

However, the impacts, disadvantages or costs of FDI also need to be managed to ensure a net positive outcome. For example, FDI has a negative effect on domestic savings, as it gives room for the recipient country to increase its consumption. Also, FDI affects the flow of foreign exchange through two accounts:

- **Financial.** FDI brings in capital, but also leads to a stream of outflows of profit and other investment income. This outflow increases through time as the stock of foreign capital rises. Thus, FDI has a tendency to lead to "decapitalisation". Comparing aid, debt and FDI, the study finds that because of the much higher rate of return of FDI compared to the interest paid on aid or debt, the "decapitalisation" effect of FDI is greater than for aid or debt. The study documents this finding by empirical studies of several cases.
- **Trade.** FDI has a positive effect through higher export earnings and savings on imports (for products locally produced. But it has a negative effect through higher imports of the intermediate and capital goods on which it relies heavily, and sometimes by raising imports of consumption goods.

To maximize positive and minimize negative effects and ensure successful use of FDI, the study recommended that countries should observe the following eight preconditions:

- Availability of foreign capital should not be allowed to detract from domestic savings efforts.
- The factor payment cost must be minimised and prudently managed.
- Joint ventures should be encouraged or required so that part of the returns accrue to locals and the local economy.
- Get foreign firms to list themselves on local stock exchanges.
- To enhance positive trade effects, concentrate FDI in the tradable sector, especially in export-based activities.
- Local content of output should be raised over time to improve trade effects.
- Obey Moffat's rule that growth of domestic investment should exceed FDI growth.
- To avoid reliance on foreign capital, increase the savings rate and maintain sound economic and political conditions.

The author of the study, Dr. Ghazali, advises that "countries using FDI without regard to the above conditions would

do so at their own peril. Any moves designed to prevent host countries from instituting such policies, however they are couched, are moves designed to keep developing countries at the bottom of the global economic ladder...With the correct policies, FDI can be of great help to host countries. Without the correct policies, however, the use of FDI can lead to severe problems especially with regard to the long-term viability of the recipient's balance of payments."

ALTERNATIVE BALANCED APPROACH

The approach taken by the MIA-MAI proponents—greatly expanding the rights of international investors while greatly reducing those of host governments—contrasts with some earlier attempts within the UN system to set up an international framework on foreign investments. The most well known was the draft UN Code of Conduct on Transnational Corporations, which was negotiated for a decade from 1982 to the early 1990s. It attempted to balance the rights and obligations of foreign investors and host countries and had sections on each "Activities of TNCs", and "Treatment of TNCs". The draft stated that TNCs have a right to fair and equitable treatment. It also recognized the right of states "to regulate the entry and establishment of transnational corporations, including determining the role that such corporations may play in economic and social development and prohibiting or limiting the extent of their presence in specific sectors." Unfortunately, in the early 1990s the Code process was abandoned, mainly because some developed countries did not favour the obligations the Code would place on TNCs.

At the same time, developed countries initiated negotiations on Trade Related Investment Measures (TRIMS) in the GATT "Uruguay Round" of trade negotiations. The TRIMS proposal initially contained a first part on foreign investment policy *per se*, including the right of entry and establishment of foreign companies and granting of national treatment to them. This part was dropped when many developing countries objected, stating that governments have the sovereign right and the necessity on development grounds to regulate the entry and terms of operation of foreign investments. Another objection by developing countries, that GATT was not the competent body to deal with the issue, was also accepted.

However, a second part of the TRIMS proposal, covering such investment measures as local content policy which directly affect trade, was retained as the present TRIMS agreement in the WTO. Developed countries are now trying to bring back the rejected first part in WTO through the phrase "trade and investment" (no longer "trade-related investment measures"). Their main aim is to start negotiations towards a MIA and thus regain what was eliminated from the Uruguay Round covering the issues of investors' rights, investment policy per se and the investment regime as a whole. The response from developing countries is that these issues not only were dropped from the earlier TRIMS proposal and not meant to be brought into the WTO

framework, but also fall outside the competence or legitimacy of the WTO.

CONCLUSIONS

There is an important role for foreign investments in developing countries, and objections to the MAI treaty do not arise out of any bias against foreign investment per se. Rather, the experience of countries that have made successful use of foreign investment underscores the importance of host governments having decision-making power and policy options over the entry, terms of equity and operations of foreign investors.

An international regime that would reduce or take away those rights and give total freedom and rights to foreign investors may lead to the disappearance of many local enterprises, higher unemployment, greater outflow of financial resources, and therefore to balance of payments problems. It may also worsen social imbalances within society, thereby causing social instability which will offset economic prospects (see Malaysia box above).

The MAI and the MIA are not the only models for establishing relations between foreign companies and host governments. Another approach was earlier attempted in the draft UN Code of Conduct for Transnational Corporations, in which the rights and obligations of foreign companies and the rights and obligations of the host governments were spelled out. Efforts to establish this Code of Conduct were ended in 1992, but the draft is still useful as an example of an alternative approach.

Striking a proper and fair balance is important for foreign investors and the host countries which have different goals and interests:

- Investors from foreign countries want to come to developing countries to pursue their aims of getting higher return on capital than in their home country, combining their capital with the cheap labour of the host country to reduce the cost of production, and utilizing the raw materials of developing countries near their source.
- Host developing countries, on the other hand, are interested in strengthening their services and infrastructure to help in industrialization and development, producing exportable goods, and achieving continuous technological development in their industrial production and services.

These two sets of objectives are not incompatible. The interests of foreign investors and host governments, although different, may be harmonized. But it is critical that any FDI meet both sets of objectives.

From the point of view of a developing country, the government must have the right and power to determine the entry and conditions of foreign companies, so that the country's development objectives can be fulfilled. The MAI would cause a great imbalance in the relation between the host country and the foreign investor. Thus in its present form, it would be unwise for developing countries to enter into such an agreement. ■

YOUNG Entrepreneurs & NEW Information Technologies:

POWERFUL COMBINATIO ACROSS THE SOUTH?

BY SUJIT CHOWDHURRY

AS THE 21ST CENTURY APPROACHES, developing countries are bound to experience increased pressure on their capacity to absorb labour. Now, in the 1990s, 40 million jobs must be created each year, and there are four to six times as many new seekers as there are new jobs in developing countries. And future job creation needs are also predictably huge, with young people under 15 representing two-fifths of the develop countries' population. Sujit Chowdhurry suggests that the promotion of entrepreneursh and self-employment by young people could help meet these crucial human needs acro the South, especially if new information and communication technologies (ICTs) are deployed to support skills training, data exchange and capacity strengthening for new businesses. He is the Executive Director of the Institute for Leadership Development at York University, Ontario, Canada.

INTRODUCTION

As technology advances at a rapid rate, developing countries will need to take advantage of new information and communication technologies (ICTs) if they are to achieve economic growth and narrow the income distribution gap amongst their populations. By the year 2010, two-fifths to one-half of today's population in developing countries will be entering the labour force. Increased investment in education will be needed to help give them the knowledge and skills necess to start and maintain small-scale ent prises and thus create more jobs themselves and for others. As gove ments in developing countries look ways to promote entrepreneurial sk among their youth, one policy opt open to them is to boost the use of el tronic venues for distance learning.

Technical cooperation among dev oping countries (TCDC) has for l held out the promise of fostering dev

opment through the exchange of successful practices, since the countries involved share a number of economic, social and political similarities. By contrast, technologies obtained from the North are often less suitable and less adaptable to situations in the South. TCDC has heretofore been difficult because of the constraints of time and resources, but access to electronic networks is changing all of this.

Young entrepreneurs, properly equipped with the skills of using electronic networks, are well situated to act as agents of change in development, potentially all across the South. There is a strong role for TCDC in sharing experience with this overall approach, devising promotional and training programmes for entrepreneurship, and in boosting the use of ICTs in the technical and economic cooperation activities of developing countries. Strategies which strengthen entrepreneurship among youth and their emerging firms could have a tremendous impact on initiatives for development at the local level. If local and national entrepreneurship programmes can be linked up to international data sources on technologies, funding sources, markets and trade practices, new businesses piloted by youth could become a leading edge in national development and eventually even have impact on the forces of globalization.

ECONOMIC AND EMPLOYMENT ISSUES

The less-developed world, with more than four-fifths of the world's population, had only slightly more than one-fifth of total world income in 1993. To eradicate poverty and create jobs, labour-intensive production should be emphasized so as to increase the assets, employment and incomes of the poor. The main argument for this approach is that realizing the potential abilities and entrepreneurship of the poor will often be the cheapest, fastest and most reliable path to employment creation and sustainable growth.

The average unemployment rate in the developed countries is much lower than in developing countries. The rate was only 8.6 per cent in the developed countries in 1993. By comparison, unemployment of urban youth was 29 per cent in Kenya and 21 per cent in Algeria. However, these numbers may be even higher. Official unemployment statistics in developing countries have limited meaning because much employment is in rural areas and in the informal, untaxed economy for which statistics are hard to come by.

In developing countries, 40 million new jobs are needed each year for those already born. There are four to six new job seekers for every new job created.

The employment prognosis for developing countries is bleak. During the 1990s, 40 million new jobs must be created each year for those already born. Unemployment in the developing countries will continue to rise and it will be

increasingly concentrated among the poor. The average annual growth of the labour force in the developing countries is 2.1 per cent and in some African countries it is 4 per cent. Yet labour demand has only been increasing by one-third to one-half of one per cent each year. This means there are four to six new job seekers for every new job created.

Table 1 below compares changes in employment in the agriculture, industry and service sectors in developed and developing countries. In agriculture, for example, employment in developed countries has changed dramatically from 22 per cent in 1965 to 7 per cent in 1989-91. For developing countries, it dropped only slightly from 72 per cent to 61 per cent in the same period. There is a strong inverse relation between the share of the labour force in agriculture, the level of per capita income and the level of human development. The higher the level of development, the small the share of the labour force engaged agriculture. Also, the smaller the share the labour force in industry and service the lower the level of income and deve opment of a given country or region.

Based on the above observation poverty eradication, job creation an sustainable development in developi countries will need the equivalent of industrial revolution. This means re ganizing the agrarian sector, investing human and physical capital and, mo important, in human resources develo ment and technology. It also means shift of the work force, as it did in t history of the developed countries, fr low-productivity to high value-add activities in agriculture, industry a service sectors. Along those same lin developing countries should serious consider giving emphasis to fosteri entrepreneurship and self-employme especially among youth, as a way

TABLE 1: STRUCTURE OF WORLD EMPLOYMENT FROM 1965 AND 1989-91 (%)

Region	Agriculture 1965	Agriculture 1989-91	Industry 1965	Industry 1989-91	Services 1965	Services 1989-91
World	57	48	19	17	24	35
Industrialized countries	22	7	37	26	41	67
Developing countries	72	61	11	14	17	25
East & S.E. Asia*	73	50	9	18	18	32
Sub-Saharan Africa	79	67	8	9	13	24

* Figures for 1960 instead of 1965; industry includes only manufacturing. Source: ILO Labour Statistics (Geneva 1994)

achieve high levels of human development, employment and growth.

Looked at from the standpoint of the struggle to overcome unemployment and generate jobs, education is an investment in human-capital formation. An educated labour force has the capabilities to utilize and develop new and cost-effective technologies for the development of physical and technical infrastructure. A detailed 1989 study found that education is a significant factor in reducing poverty and improving income distribution. It showed that the contribution of primary education to growth and income distribution is much more significant than at any other level. For micro and small-scale enterprises, primary education serves the purpose of developing peoples' ability to follow written instructions, measure accurately and to understand some of the basics of science.

However, even providing this basic foundation is difficult for many or most developing countries. Rapidly rising primary school enrollment due to rapid population growth will continue to pose funding problems in the overall education budget. There is strong competition for resources among the sectors of the education system, as between primary and second levels, vocational and technical schools, education programs for women and adult literacy programs. It is a classic dilemma, with rising school-age population, rising enrollments and resource shortfalls on the one hand, and major educational requirements for overcoming unemployment and poverty, on the other hand. It is a dilemma which almost automatically prompts a search for alternative ways of meeting the job and income needs of the large youth population coming to adulthood and the employment market.

ENGAGING YOUTH IN INCOME GENERATION

Today's youth may be tomorrow's leaders or tomorrow's problems, depending on the roles they are enabled to play in economic and civil life. In order to effect positive social change, youth must be able to participate meaningfully and fruitfully in the socio-political and economic landscape in which they live. For the most part, the youths of the developing countries face an uncertain future. Many young people in these countries are marginalized and poor. They have little exposure to education and training. This limits their employment options and narrows their access to productive employment, contributing to an ever-widening gap between the standard of living for masses of young people and the growing middle classes in developed and developing countries alike. The result is a shortfall in the productive potential of developing societies and in the potential of young people themselves. Social problems such as alcoholism, drug abuse, and juvenile delinquency result from this marginalization.

There are a number of areas where these problems could be addressed. Currently, developing countries have a majority of the world's population, but only a small share of global trade or domestic production in high-value ser-

vices. The expansion of traded and non-traded high-value skill- intensive services offers tremendous opportunities to young people in developing countries. To take advantage of these opportunities, however, youth in these countries need to acquire knowledge and skills required for self-motivated initiatives in entrepreneurship. They also need access to a complementary physical and legal infrastructure in support of entrepreneurship.

Table 2 below shows the total population for various regions of the world in 1994, the estimated population in 2010 as well as the percentage of youth aged 15 years and under in 1994. For developing countries, the table demonstrates that, as we approach the 21st century, nearly two-fifths of the population will be streaming into the labour force and will face bleak prospects of finding a job compared to one-quarter in the industrialized countries.

Business Sector

A key element to promoting entrepreneurship is the existence of a supportive business climate. Generally, if the business sector is supportive of new initiatives and self-employment, this bodes well for encouraging new entrepreneurs.

Table 3 below shows that in developing countries a large part of their labour force is self-employed—as much as half to two-thirds—as compared to industrialized countries. This is unlikely to change significantly in the coming decade. For most of the world's young population and for most young firms, employment and decent incomes are going to depend on their performance as effective entrepreneurs in the local and global market place. In seeking eco-

TABLE 2: GLOBAL DEMOGRAPHIC INDICATORS AND YOUTH 15 YEARS OF AGE AND UNDER

Region	Population (1994)	Population (2010)	Per cent of population less than 15 years old (1994)
Developing countries:			
Africa (sub Saharan)	570.0	901.0	46
South Asia	1,213.2	1,608.3	41
East Asia and Pacific	1,756.7	2,083.3	35
Latin America and Caribbean	470.0	584.0	36
Middle East and North Africa	331.5	492.6	39
Industrial countries	1,224.8	1,305.3	24
World	5,607.0	7,022.0	33

Source: Causes of Hunger, Silver Spring, MD, USA: Bread for the World Institute, 1994.

TABLE 3: SHARE OF SELF-EMPLOYMENT IN SELECTED COUNTRIES

Developing countries	Year	Self-employment in total labour force (%)	Developed countries	Year	Self-employment in non-agricultural sector (%)
Ghana	1984	68	Italy	1987	22
Pakistan	1984	56	Spain	1987	20
Ecuador	1987	56	United Kingdom	1987	14
Nigeria	1981	56	Australia	1987	13
Mexico	1981	48	Ireland	1987	12
Indonesia	1986	44	France	1987	11
Bangladesh	1987	41	Netherlands	1987	08
Philippines	1987	36	Germany	1987	08
India	1981	31	USA	1987	08
Thailand	1986	29	Canada	1987	07
Colombia	1987	28			

Source: Table 3.2, Human Development Report, 1993, p. 66.

nomic growth, it therefore makes good sense for governments in developing countries to encourage entrepreneurship so that self-employed young people can take reasonable risks in the pursuit of higher incomes for themselves and high-value jobs for the employees they hire. Providing a supportive environment means ensuring that young entrepreneurs have appropriate access to capital, skills training and knowledge of market systems. Without these three requisites, young entrepreneurs are likely to fail despite their best intentions.

Civil Sector

Good governance is important not only for the maintenance of law and order, but also to maintain and expand social and economic infrastructure. Governments should see their role as being "facilitators" of good governance and promoters of economic development. This involves a wise blend of addressing global and local challenges and opportunities. Good governance will contribute to a stable business climate for local entrepreneurs. Local entrepreneurs will in turn contribute to civil society and sustain good governance. Moreover, good governance can promote sound macroeconomic policies and reduce currency overvaluation and exchange rate fluctuations, which are potentially damaging to young entrepreneurs and young firms, especially

those involved with traded goods.

In many developing countries, policies for pricing, licensing, infrastructure, education and trade tend to favor the large-scale formal sector, and neglect labour-intensive, small-scale entrepreneurial efforts. The solution to this imbalance is for governments to support the development of human entrepreneurial resources, and to reduce the needless obstacles flowing from bureaucratic red tape. Public assistance can also be targeted to productivity

Give graduates a "tool set" and a loan to become entrepreneurs, instead of certificates to become job-seekers in bleak markets.

enhancing entrepreneurial behavior so that small firms can step up job-creation capacity through improved productivity and higher earnings.

Local policies, including those of municipal governments, can also assist or hinder young firms. For example, do local governments help small street vendors obtain fixed locations and legal status, or do they treat them as a problem and subject them to police harassment? Favourable policies open up a path for entrepreneurial expansion, in contrast to repressive policies which threaten business and stifle the potential of economic growth.

Governments can further contribute to entrepreneurial development by ensuring that young firms have appropriate access to training, particularly relevant to the acquisition of management skills. Reaching young entrepreneurs and young firms presents a challenge to public officials. While training can have a positive impact on small enterprises, the content and delivery of such training curricula must be relevant to the needs of young entrepreneurs and young firms and help them acquire and upgrade appropriate business and technical skills. Examples of institutions that do this are SENA in Colombia, SIDO in Tanzania, the Malawian Enterprise Development Institute, and self-employment programs of Nigeria's National Directorate of Employment. However, there is a need for far more such training and learning centres.

In the Malawi programme, entrepreneurial training targeted at educated unemployed youths has proved successful. The program offers vocational training, as well as training in business management and entrepreneurship. At the end of the course, graduates are given a "tool set" and a loan to encourage entrepreneurial behavior, instead of a certificate which might only encourage them to seek wage employment in bleak markets.

Capital

Though small firms are of considerable economic importance in developing countries, there is often little support for them. Lenders measure success in terms of loan repayment rates and favor established firms with limited employment generation capacity over young firms with prospects for more productive job creation. Organizations created to help entrepreneurs are usual

- Strengthen and assist young firms so that they can survive and have the possibility to expand, thereby creating new jobs for men and women.
- Help strengthen entrepreneurial skills among the young, improve the survival rates of young enterprises, and raise the standard of living among entrepreneurs, even if such initiatives seem to offer little short-term promise for the creation of new jobs.

ENTREPRENEURS AND THE NEW INFORMATION AND COMMUNICATION TECHNOLOGIES

Today, more than ever before, the world economy is increasingly integrated and interdependent. The global reach of capital and technology has opened local and national markets to global forces. This has encouraged greater specialization and division of labour, creating conditions which may facilitate the overall growth of incomes and output, while at the same time resulting in

uneven development. Globalization has allowed for the transfer of technologies across national borders, the rapid deployment of new technologies, and the large scale movement of finance capital in support of the diffusion of new technologies. However, global forces need to be placed in the service of capacity-building for sustainable development and democratic participation. Job creation and equitable participation for all are steps towards this goal.

Technological change which consists of devising new goods and new ways of producing existing goods and services has been a prime mover in the course of economic development. Entrepreneurs are key disseminators of technological change. One traditional role of entrepreneurship in developing countries is the transfer of technology. For this process to work, it is important to identify technology that can easily be assimilated and adapted to situations found in developing countries. The traditional strategy has been to identify entrepre-

Electronic venues have significant impact in support of young entrepreneurs and the sustainability of their firms.

neurs who are willing to receive technology from elsewhere and equipping them with appropriate and proven technology from another region or country.

The arrival of electronic venues (the global Internet, wide area networks, local area networks, intranets, etc.) as a result of the marriage of informatio communication technologies (IC having a significantly different i in support of young entrepreneurs the sustainability of young firms. I ticular, the use of ICTs in netwo and distance learning is enabling entrepreneurs and young firms to e in various types of capacity-build increasingly modest costs. The c ties thus available include entrepr ial skills, technology transfer, acc sources of finance, as well as know about markets and trade regimes.

Networking

In the business world, network erally comprise partnerships or ings of economic agents manufa or service firms and institution together by some common interes members of such networks build ionship of trust among them while gathering and sharing inform and resources. One observer def network as a "locus of space in the circulation of free information tered, the information (so dissemi is filtered and adapted to the n ments of the different network me Once organized into a relatively partnership, the network provides to "shared" information.

One example of a network information relevant to young en neurs is shared is a discussion called ENTER-L which can be ac via the internet (http://www web.org). Small firms can turn works such as ENTER-L to obta entific and technological inform

that they need. Small firms do not have budgets for expensive Research & Development, and may only need information occasionally; networks can meet such needs as they arise and at low cost. At the same time, networks allow small firms to keep their independence, which is important for the development of entrepreneurship. In addition, as young entrepreneurs cannot afford to take big risks, networks create a manageable "transaction space" in which small firms can monitor information flows as well as potential changes and risks in the business environment.

Young firms face a number of constraints. They lack the time, skilled specialist staff, and financial resources to access and sort the large quantities of collective, public or private information available in and outside the market. It is in this regard that electronic networks offer considerable scope for entrepreneurial skills development.

The youngest firms are most vulnerable at times of economic turbulence. They are not able to control or process information, being unfamiliar with the best approaches to effective networking. As a result, if young firms are not involved in a group where useful information is shared, they may be severely disadvantaged as compared to their competitors who are members of such groups. Training and experience are therefore prerequisites to an effective search for and use of scientific and technological information. These learning opportunities are increasingly available on-line, from the entrepreneurial on-line community or from other sources.

Electronic networks are not just another venue for effective information gathering. Rather, they offer several strong advantages:

- For anything other than very local networking, they are more cost-effective communication strategies.
- They are a very important venue for technology transfer and other exchanges.
- They are an excellent venue for entrepreneurial and small firm capacity strengthening.

They can be used for distance education, distance learning, market/product research and as a collaborative workspace. This is particularly attractive to young entrepreneurs and young firms where constraints on time and labor are as problematic as constraints on financial resources. An electronic venue is particularly advantageous as a virtual workspace for "just-in-time" learning, strategic knowledge gathering and information dissemination.

PROGRAMS FOR YOUNG ENTREPRENEURS

Two international "summits" have been held for the training of young leaders from developing countries. A number of other programmes for the formation of youth entrepreneurs are running on a continuous basis. Participants obtain knowledge and technological tools they can apply as "change agents" working to promote trade, investment and technological partnerships at various levels. More such programmes are needed for young entrepreneurs who can become the "new engine" for South-South coop-

eration, working actively for poverty eradication, job creation, gender equality, sound governance and sustainable development. Here are some examples:

One-time "summits":

- **World Youth Leadership Training Summit** brought together more than 230 young leaders from over 117 countries at UN Headquarters in New York for five days in August-September 1995. It helped to build critical leadership skills, educate youth about their rights, roles and responsibilities, and promote a range of tools available to participants in achieving their goals.
- **Summit 77 for Young Entrepreneurs** was conceived and organized by and for young entrepreneurs from Group of 77 developing countries. Held in Costa Rica for five days in January 1997, this training summit focused on "Trade, Finance and Technology Cooperation". It encouraged young entrepreneurs to become agents of change using trade and finance; promote trade, investment and technological partnerships at local, national and international levels; build awareness about trade liberalization agreements and blocs; and promote global communication, networking and interaction.

On-going international programs:

- **Global Commercial Diplomacy Program** is a customized training and skills program based on practical subjects needed for successful operation under increasingly global market forces. It helps young entrepreneurs acquire commercial skills in five areas: human resources development in the field of trade; information and communication technologies and entrepreneurship; joint capital ventures; trade financing; investment and market access (exports); and electronic commerce.
- **Global Young Entrepreneurs Network (GYENET)** was initiated at the conclusion of Summit 77 to help young entrepreneurs and young businesses obtain skills training globally, form alliances to sustain global competitiveness, and encourage them to take part in mainstream arenas of global economics. A major innovation is that training will be offered on-line electronically, as well as in traditional on-site formats. On-line training modules will include some with interactive guidance from GYENET tutors and some for self-paced 'just-in-time' learning. It will also use senior entrepreneur mentors to match the interests and needs of GYENET's young entrepreneurs. Also, GYENET will help young entrepreneurs understand how the policies of international organizations affect youth business ventures, how to draw on them in pursuit of their entrepreneurial objectives, and how to participate in the organizations' policy-mak

National program of interest:

- Society for Young Entrepreneurs in Italy (Società per l'Imprenditorialità Giovanile—IG) was created in 1986 by National Law 44, which focuses on endemic and structural unemployment in Italian regions affected by underdevelopment and economic crisis. It seeks sustainable employment growth by creating work opportunities driven by local needs. It does not address itself to all young people, but only to those who are genuinely interested in self-employment in business. It does this by evaluating and selecting business ideas, feasibility studies and potential entrepreneurs; managing public funds to create new, small enterprises; and assisting and monitoring new enterprises, including the assignment of mentors to help young partners develop their entrepreneurial capabilities. Approximately 5,000 youths are partners in newly created companies.

CONCLUSION

In 1994, two-fifths of the population in developing countries was aged 15 years or less. By the year 2000, many of these youth will be entering the labour force and will have to face gloomy employment prospects and fierce competition for the few jobs that will be available. The only way these youth will be able to escape the vicious circle of poverty and find employment is to become gainfully self-employed. Many of these youths will be educated and have the drive and energy to start their own firms, but many of them will lack access to capital and entrepreneurship training. Governments will need to assist their young citizens, create an environment conducive to entrepreneurial activity, reduce the red tape that hinders youth from starting their own firms, set up institutions to provide training, and offer young entrepreneurs appropriate access to capital.

Today's youth will either be the major problem or the 'agents of change' in the 21st century. They are more open to using new information and communication technologies—a potential advantage both in their training and in their work.

Training. Youth need training on how to pursue entrepreneurial ventures, and the new technologies are a means to effective training. Skill development and career counseling services can be available through electronic venues and distance learning.

Entrepreneurial support. For young people who are keen and talented enough to start their own business, electronic venues or virtual workspaces could serve several needs. They could supply market information. They could provide tools for sustained guidance and operations support. And they could offer follow-up training in entrepreneurial skills. ■

TCDC as a Central Tool in FAO Services to Developing Countries

BY RAMADHAR

"FIRST CONSIDERATION" should be given to the TCDC modality in all programmes and projects, according to the UN Economic and Social Council in 1992.

This called for a radical transformation of attitudes and approaches in dealing with technical cooperation, says Ramadhar, Chief of FAO's TCDC/ECDC Service in Rome. He discusses how FAO has risen to this challenge, making the use of TCDC experts part of the mainstream of FAO assistance.

WHEN CHEIKH NDIAYE, a Senegalese agronomist stopped over at FAO Headquarters in Rome last August on his way back from his TCDC mission to Rwanda and Burundi, memories were still fresh in his mind of the work he had done and the new links he had established with the farmers and technicians in the two countries. "I felt a sense of participation in the development of the two countries within the same continent, and with similar agro-climatic and socio-economic conditions as my own country. I hope Rwanda and Burundi both benefited from my mission, but I too learnt a lot through my interaction with the farmers and experts there", he admitted.

Ravaged by civil strife, Rwanda and Burundi were in the grip of food shortage. Agricultural operations had been disrupted. Ndiaye's mission was to assess crop production and food supply and to estimate grain imports and food aid requirements for the coming year. He further recommended setting up a national early warning system to constantly monitor the agricultural, food and nutritional situation in Rwanda and Burundi, rehabilitating the agricultural statistics system and training of staff.

Cheikh is among some 800 experts who have, during the last two years, participated in a programme launched by FAO's Director-General Jacques Diouf. It involves the use of experts for technical cooperation among developing countries (TCDC) and technical cooperation among countries in transition (TCCT). Some 110 countries have signed the TCDC/TCCT Agreement with FAO, thus confirming their commitment to be active partners in this innovative technical cooperation modality based on the sharing of development costs and responsibilities.

The use of experts under TCDC arrangements is not new in FAO. In many intercountry activities, experts have been used before under TCDC

modality. But this had been done on an ad hoc basis and through varying arrangements. The initiative launched in 1994 provides a structured framework with clearly delineated roles and responsibilities of the three partners—the releasing party meeting the salary of the experts, the beneficiary party defraying the local costs of board and lodging, and FAO providing the costs of international travel and related expenses, social security coverage and a small supplementary allowance to the expert to meet out-of-pocket expenses.

TCDC: an instrument to tackle the problems which farmers, fishermen and forestry workers face every day.

The initiative placed TCDC on a completely different plane. It was no longer a philosophical concept to be discussed and debated in the coziness of conferences and seminars, but a practical grassroots reality, an instrument to tackle the problems which farmers, fishermen and forestry workers face every day. TCDC has become a central tool in FAO's services to developing countries.

RANGE OF SOURCES AND TASKS

The programme draws expertise for TCDC from all possible sources — government institutions, parastatal bodies, private organizations and nongovernmental organizations (NGOs). Private individuals are also eligible to be recruited. This has ensured a broadened partnership and availability of the best experts to perform specific tasks. A computerized roster of experts has been established to facilitate this process.

In response to requests from developing countries, TCDC/TCCT experts have been involved in a wide range of technical fields, including animal production and health, land and water development, plant production and protection, marketing and credit, nutrition and food quality control, fisheries, forestry, sustainable agriculture and rural development, research extension and training, as well as the integration of women in development, to mention but a few.

Expert assignments do not follow some expected pattern. Exchanges are not one-way. Receivers of TCDC assistance in one field are assistance providers in another domain. Countries furnishing TCDC expertise include both poorer, less developed countries as well as richer, more developed ones. Experience sharing is not confined to countries within the same region, nor even confined to countries using the same languages. The table below gives recent examples of this wealth of multi-directional, multi-disciplinary flows of mutual assistance.

NONGOVERNMENTAL ORGANIZATIONS

FAO's TCDC programme draws on the active participation of nongovernmental organizations (NGOs). The Caribbean Natural Resources Institute (CANARI), an NGO based in St. Lucia, helped Belize assess the potential for commercial cultivation of seaweed for human consumption. During his mission, the

St. Lucian expert, Alan Smith, paid particular attention to the technical feasibility of cultivating Gracilaria and Eucheuma seaweed in Belizean waters, the availability of institutional support and of technical and scientific expertise, and the local and external marketing facilities. The mission served to enhance the interest of the Belize Government in further exploring the potential of sea moss as a crop for domestic use and for export. CANARI will train Belizean trainers, who will then train farmers in the cultivation and market-

RECENT TCDC EXPERT ASSIGNMENTS

Receivers	Senders	Specialties
Bangladesh	Indonesia	Environmental extension training module
Belize	St. Lucia	Commercial cultivation of seaweed for human consumption
Cape Verde	Tunisia	Upgrading date palm production technology
Cuba	Venezuela	Clonal plant propagation of sugar cane
Dominican Republic	Cuba	Potato cultivation
Gambia	Tanzania	Strengthening pesticide registration
Iran	China	Breeding of blight-resistant wheat
	India	Improvement of animal genetic resources Fishing harbour development Improved rice breeding
	Pakistan	Agricultural extension planning and evaluation
	Peru	Varietal improvement of apples
Namibia	Brazil	Fruit culture
Peru	Malaysia	Wood utilization techniques
Rwanda	5 African countries	Agricultural rehabilitation
Senegal	Vietnam	43 farming experts in different specialties
Trinidad and Tobago	Guyana	Household food security
Uganda	India	Simple grain processing technology
Viet Nam	Sri Lanka	Tapping of toddy palm trees for animal feed
Zambia	Bangladesh	Irrigation technology

ng of the product in Belize.

In another TCDC mission, Dominique Sarkar from the Bangladesh office of an NGO called International Development Enterprises (IDE) assisted Zambia in transferring small-scale irrigation technology and training Zambian farmers to use the Bangladeshi treadle pump. The mission resulted in collaboration by IDE, Zambia and FAO to train Zambians in the manufacture of these pumps.

WOMEN EXPERTS

The participation of female experts has also been a notable feature of FAO's TCDC programme, including research, training and planning tasks. Examples of the topics they have covered include environment, rice breeding, disease control in wheat, plant propagation, and food.

Mrs. Miriam Rikhana from the Indonesian Ministry of Agriculture assisted Bangladesh in the development of an Environmental Extension Training Module (EETM). She conducted a workshop on it for agricultural policy makers and graduate level training for "Master Trainers" at Bangladesh Agricultural University. The final version of the Bangladesh module was presented at a workshop in Beijing attended by people from a number of countries. It is now being used to help other developing countries with their own modules, including some African countries which are developing their own EETMs based on the southeast Asian experience.

Dr. Nallanthigal Shobha Rani, a senior scientist at India's Directorate of Rice Research went to the Islamic Republic of Iran as a TCDC adviser on improved rice breeding techniques. She studied Iranian conditions and recommended specific new high-quality high-yielding varieties from India. In addition, she benefited by observing some new techniques in two provinces: "They are trying to control stem borer through biological control", she said. "They introduce a moth to the fields to eat the eggs of stem borer. It is being done very nicely in Iran on about 28,000 to 30,000 hectares."

In 1997, Ms. Zhang Bingxin from the Agricultural University of Hang Zhou, China, advised Iran on breeding wheat to resist fusarium head blight, one of the most damaging wheat pests in humid and sub-humid parts of the country. This first mission was to be followed by a second in 1998.

The Guyana Consumers' Association, an NGO, provided the services of a TCDC expert, Ms. Donna Harris, to Trinidad and Tobago to assist in the planning of household food security, the prevention and control of malnutrition and the protection of food quality.

Dr. Eva de Garcia from the Central University of Venezuela went on a short TCDC mission to Cuba to advise on clonal plant propagation of sugar cane.

MAINSTREAMING TCDC

When the Economic and Social Council (ECOSOC) of the United Nations in its Resolution 1992/41 called for "first consideration" to be given to the TCDC modality in all programmes and projects, it was stressing the need for a

radical transformation of attitudes and approaches in dealing with technical cooperation. Numerous studies on impact and sustainability of technical cooperation results had confirmed the urgency of a fresh look at the way technical cooperation was delivered. There was a clear recognition that in order to take deep root in developing countries, technical cooperation has to be in conformity with the historical, cultural and social values and attitudes of the people it is meant to serve. Because of the importance of such factors, the use of TCDC experts is becoming part of the mainstream of FAO assistance under both Regular Programme and extra-budgetary resources.

To take deep root in developing countries, technical cooperation has to be in conformity with the historical, cultural and social values and attitudes of the people it is meant to serve.

The FAO TCDC response to emerging needs and opportunities is often to mobilize appropriate expertise from similar circumstances—a Chinese TCDC expert helping finalize an Asia-Pacific Forestry Outlook study; a Slovak expert marshaling experience on women's involvement in sustainable development to share with a regional Working Party of 15 European countries; or TCDC specialists on agronomy and water resources from five African countries working on the rehabili
of Rwandan agriculture. Another
ple is an agricultural research pro
Lebanon which relies on TCDC
tise essentially from comparable
ecological settings of the region.

Where conditions are similar
way learning is likely to occur
often. A senior scientist from the
tral Food Technological Researc
tute (CFTRI) of India went to U
under a UNDP-funded project to
duce simple grain processing tec
gy. Finding conditions in the U
countryside surprisingly like th
India, he not only taught but le
few things on his first trip to Afri
example, said the Indian scient
Hampapura Narasimha. "I was su
that women did most of the w
both the home and the field.
liked a little trick the women
reducing cooking time by puttin
bonate of soda into the cooking

COST-EFFECTIVENESS, CAPACITY-BU
AND ENHANCED RELEVANCE

The experiences of experts ar
gramme beneficiaries since the
of the TCDC experts programm
confirmed not only its cost-effect
but also its enhanced relevance.
month by a TCDC expert costs
age of about one- third as muc
expert recruited at internationa
resulting in savings of scarce reso

The arrangement also pro
sense of shared goals and obj
among participating countries a
technicians. In many cases, t
links and partnerships establish

ing initial TCDC missions endure thereafter. The beneficiary party is the real "owner" of the collaborative operation, with FAO serving as a catalyst and facilitator. The ultimate goal of technical cooperation is to build the capacity of developing countries to manage their affairs nationally and collectively, based on the principle of equality and mutual interests. It is not only the beneficiary parties which are deriving advantage; TCDC experts enrich their own experience and broaden their skills.

SOUTH-SOUTH COOPERATION ON FOOD SECURITY

FAO has launched another new initiative on South-South cooperation within its Special Programme for Food Security (SPFS). The Programme's main objective is to help low-income food deficit countries (LIFDCs) rapidly increase their food production, reduce year-to-year vulnerability caused by erratic precipitation, and thus achieve sustainable national food security. The South-South cooperation strategy is to allow recipient countries to benefit from the experience and expertise of more advanced developing countries through the Special Programme.

For two to three years, specialists from more advanced developing countries work directly with farmers in rural communities of specific recipient countries. The countries providing the experts meet the salary, social security and other home-based entitlements of the experts. The recipient Government provides accommodation, internal travel, a monthly allowance, medical coverage and other local support. FAO meets the costs of international travel and a small subsistence allowance, installation grant, office operating costs and consumables. The number of experts required is determined on a case-by-case basis, but must be sufficient to achieve a minimum critical mass, with site coverage adequate to represent all regions of the country.

Under the first tripartite South-South cooperation agreement signed by Viet Nam, Senegal and FAO in the Special Programme, 43 Vietnamese farming specialists have arrived in Senegal to help work on small water irrigation schemes, raising small livestock, aquaculture projects, rice production, beekeeping and food processing. Some 100 Vietnamese specialists will eventually be in Senegal for a two-to three-year period, with most of them working in the fields with local farmers and their associations. FAO is promoting similar arrangements with a number of other countries.

SUPPORT TO REGIONAL INSTITUTIONS AND ORGANIZATIONS

The programme on the use of TCDC/TCCT experts represents the most important and focused component of FAO's support to TCDC. However, it is by no means the whole of FAO's TCDC effort. FAO also continues to use other TCDC instruments to assist developing countries and countries in transition. This includes support for regional institutions and bodies, networks, inter-country consultations and workshops, training and study tours, as well as the expansion of information systems.

As regional institutions and bodies

respond to regional concerns, FAO works with them closely in fostering intercountry collaboration. Some of the means used are exchange of technical information and scientific data, planning and programming of joint actions, studies and research and exchange of technicians. Examples of FAO support to regional initiatives have included:

- a regional workshop on rural women and extension in Middle Eastern countries, which involved collaboration with the Foundation for the Advance of Human Beings and the International Centre for Advanced Mediterranean Agronomic Studies (CIHEAM).
- participation of a Jordanian TCDC expert in a regional seminar on the impact of economic policies on food security, in collaboration with the Statistical, Economic and Social Research and Training Centre for the Islamic Countries (SESRTCIC).
- training of nearly 300 local marketing managers and other functionaries during three years, through FAO assistance to the Association of Food Marketing Agencies in Asia and the Pacific (AFMA).

NETWORKING

Institutional collaboration is the key to sustainable TCDC. Since the early 1960s, FAO has promoted some 150 technical cooperation networks linking institutions and their experts. These networks respond to priority needs of the countries which can be met by pooling their complementary capacities and resources. These networks foster research and technical collaboration, facilitate institutional linkages, avoid duplication of research efforts, and promote information exchange and the transfer of technology. In some regions, support to networks is a major focus of the activities of FAO's Decentralized Offices and accounts for more than half of their resource allocations.

The European System of Cooperative Research Networks (ESCORENA), for example, has 13 networks and 4 ad hoc research groups linking institutions from countries in transition in Eastern and Central Europe as well as countries in the Near East. Among the recent activities of ESCORENA is a technical consultation on cotton. Participants from Bulgaria, Egypt, the Islamic Republic of Iran, Iraq, Israel, Mali, Morocco, Paraguay, Poland, Sudan, Syria and Turkey benefited from interaction among themselves as well as with cotton researchers from institutions of other countries.

Some examples of FAO-supported networks in the Asian region are the Asian Soil Conservation Network for the Humid Tropics (ASOCON) which links 7 member countries of the region, the Asian Network on Problem Soils and the Asian Network on Bio and Organic Fertilizers.

FAO-supported technical cooperation networks in Latin America and the Caribbean, now numbering about 2[illegible] and having some 400 participating institutions, have become the pivot [illegible]

the Organization's activities in the region. They cover practically all areas of regional interests in agriculture, livestock, fisheries, forestry and rural development. During the last two years alone, more than 40 events were organized under the auspices of these networks in the form of workshops, round tables, symposia, seminars and technical consultations. Examples include an agricultural mechanization workshop attended by eight countries, a symposium on experiences in privatization of veterinary services attended by nine countries, a workshop on the role of women in fisheries and coastal aquaculture attended by five countries, and an expert consultation on watershed management attended by six countries.

INTERCOUNTRY WORKSHOPS AND CONSULTATIONS

Subregional, regional and interregional meetings, seminars and workshops organized by FAO in collaboration with developing countries and their institutions facilitate the exchange of experiences and technologies and the formulation and implementation of joint activities. In many of these events, experts have been mobilized under the TCDC/TCCT Agreement to prepare

Topics	Scope of workshops
Conservation of natural resources:	
• World overview of conservation approaches and strategies	Three African regional workshops, 18 countries Asian, five countries Caribbean workshop, 15 countries
• Information systems for land use planning and management	
• Agro-ecological methodology and land resources information systems	Latin American workshop, 20 countries
Fisheries:	
• Aquaculture	Asia
• Fisheries monitoring, control and surveillance	Asia/Africa
• Insurance and credit for sustainable fisheries development	Asia
• Role of financial institutions in strengthening national fisheries industries, and privatization of fisheries investment in small island countries	Caribbean
• Fish nutrition and health	Latin America and the Caribbean

and present specific studies and to disseminate their skills and the results of successful experiences. The table below gives recent examples of such workshops in two broad subject areas.

WHAT IS AVAILABLE AND WHERE–FAO'S SUPPORT TO TCDC INFORMATION SYSTEMS

Information on the capacities of developing countries and their innovative experiences is a sine qua non of TCDC. A number of FAO publications and directories provide information on institutions and experts in developing countries which specialize in specific fields. FAO's *TCDC/ECDC Newsletter*, now in its tenth year, highlights technologies and experiences which have lessons for other developing countries. A major publication, *Learning from Experience: Technical Cooperation among Developing Countries*, focuses on Asian lessons of the Green Revolution, livestock development and Integrated Pest Management. It also includes information on striga control and fish smoking technologies in Africa, as well as watershed management in Asia and Latin America.

FAO is currently collaborating with the Special Unit for TCDC of UNDP in the development of a multidimensional information system on innovative and successful experiences in the core areas of sustainable agriculture and rural development, food security, popular participation, as well as the involvement of women and NGOs in poverty alleviation. Details on some fifty experiences to be selected from an initial list of about 100 activities will be the final data base output in both hard copy publications and electronic format for wider dissemination.

FAO also has two systems for exchange of information and sub-regional/regional cooperation in information handling and processing. In the 23rd year of operation, these systems support TCDC by serving as sources of information for the transfer of technology and for identifying specialists in areas of common interest. The two systems are:

- **AGRIS**, the International Information System for Agricultural Sciences and Technology, which maintains a bibliographic data base of agricultural literature. About 177,000 items annually are contributed by 158 countries and 29 regional and international centres. The number of references accumulated since the system became operational in 1975 now totals over 2.6 million.
- **CARIS**, Current Agricultural Research Information System, which deals with information concerning ongoing research activities in, or related to, developing countries. It enables developing countries to collect, organize and disseminate information on their respective research institutions, workers and projects, and to exchange this information both among themselves and with developed countries. Participants in CARIS include 131 countries and 17 regional and international centres. The global database contains descriptions of about 30,0[illegible] agricultural research projects.

REALIZING THE POTENTIAL

TCDC has considerable potential in meeting challenges that developing countries face today.

INTERVIEW

From the 38th Floor: Interview with UN Secretary-General

Kofi Annan looks at ways for developing countries to resolve the contradictions, form closer partnership, and come out more on the positive side of the global equation.

Cooperation South: Since becoming Secretary-General, you have stressed the need to enhance South-South Cooperation in a number of statements. Why?

Secretary-General: Let me put my emphasis on South-South cooperation in perspective. Interdependence among all countries matters a lot today because the challenges we face on such matters as the environment, population, trade or development, are too complex and interrelated for any single nation to address on its own. In a world of global threats and global opportunities, all countries stand to benefit from international cooperation. Developing countries are, however, in a much greater need to work together as they strive to confront the many challenges they face and to sustain the gains they have made in recent years. It is in this context that I stress South-South cooperation as a framework in which countries and regions struggling to find the path to prosperity can share experiences, lessons learned

C.S. Could you elaborate on the g developing countries should striv sustain?

S.G. Much of the dramatic growth world has seen in recent years was b countries from the South. Internati trade has been growing strongly, rate of ten per cent per year since mid-1980s, enabling many develo countries to enjoy remarkable gai prosperity. Private investment in d oping countries has increased dra cally—from US$5 billion in the 1970s to more than $240 billion t

South-South cooperation prov a formidable framework for lective action on national su gional, regional, interregi and global levels.

This rapid growth has been complemented by similarly impressive gains in industrial collaboration, allowing some developing countries to attain vital social, economic and environmental goals. These are significant gains, and if sustained, they could provide invaluable lessons and impetus for improved growth in the South.

C.S. Have these hopes not been dampened by recent developments in Asia's financial markets?

S.G. I am well aware that the people of South-East Asia—a region that is a model of South-South co-operation—are intensely focused on their prospects for economic and social security. Recent developments, especially in the financial markets, have shaken the region's confidence. People are concerned about looming job losses, rising prices, austerity measures and a less favorable short-term economic outlook. Nonetheless, this crisis must be seen as a challenge to be overcome rather than a reason for despair. Most observers expect the region to overcome its immediate difficulties, regain its path of vigorous growth and fulfill its proven potential. Fortunately, the crisis has not spread beyond a few economies in East and South-East Asia. Most of the affected economies remain in possession of strong fundamentals: high saving rates, a healthy fiscal balance, abundant natural resources and a reasonably well-educated and disciplined labour force. Meanwhile, South Asian economies are likely to maintain their growth momentum, which has strengthened considerably during the past few years. And no major deceleration is anticipated for China.

C.S. What specific challenges facing the South would you like the world community to pay attention to?

S.G. We must remember that the emergence of powerful regional trading blocs has opened markets and enhanced trading opportunities. But it has also added to the marginalization of the world's poorest nations. Eighty per cent of the private capital flow to developing countries goes to just 12 countries. Only five per cent goes to Africa. Nearly 50 developing countries are not attracting any foreign capital at all. This is marginalization—the downside of globalization. Extreme poverty remains a plague, with more than 1.3 billion people lacking even the most basic health, sanitation and education services. Aid budgets, already short of targets agreed upon by the General Assembly, are shrinking. These, I would submit, are challenges which no developing country can face alone.

C.S. How could South-South Cooperation enable developing countries to harness the opportunities brought on by globalization and liberalization?

S.G. Given the current mixed picture of progress and pitfalls, opportunities and obstacles, and affluence alongside deprivation on the global landscape, I believe South-South cooperation offers developing countries a framework within which

the more developed lend a helping hand to the less developed ones in a mutually beneficial partnership. This kind of solidarity could speed up the development process through collective self-reliance among developing countries.

C.S. What steps should individual developing countries themselves take to make the best of globalization and liberalization through South-South cooperation?

S.G. Most importantly, developing countries must take the initiative to create a favorable environment that will enable them to capitalize on emerging opportunities for development. Where governments once sought to impose a model of development, today they need to focus more on creating the conditions and institutions through which development—and private enterprise—can flourish. In this context, developing countries must recognize that the interdependent world in which we live calls for the formation of new partnerships among governments, the private sector, and the international community.

It is important to remove internal obstacles which prevent developing countries from effective participation in the global economy. Many still la infrastructure, both physical and in tutional. Communications may be adequate. Information may be lack or incomplete. People may lack skill new technologies. Financial servi may be unavailable. Governm bureaucracy may hinder, rather th help foreign investors and expor alike. There is no shortage of strate and plans, analyses and statist approaches and measures to deal w these problems. What is needed mo renewed determination and willing to bring all actors together in one tied effort, and I think South-So cooperation provides a formid framework for collective action national, subregional, regional, inte gional and global levels.

New partnerships among countries of the South supported by the North can help unlock the economic potential of an underdeveloped world, for the benefit of the whole world community.

C.S. What do you see as the rol developed countries in suppor South-South cooperation?

S.G. We share one planet and a com humanity. If the developing coun live under the yoke of poverty and d vation, if they are unable to imp their lot by having a fair share in the world of international trade and in ment, the cause of development wi ter. And if development suffers, so international peace, security and environment. Many developed cou are very aware of the facts and accordingly given strong suppo South-South cooperation over the During the cold war, peace and se tended to be defined simply in ter military might or the balance of t

Today, we know that lasting peace requires a broader vision, encompassing education and literacy, health and nutrition, human rights and fundamental freedoms. We know that we cannot be secure amidst starvation. We cannot build peace without alleviating poverty. We cannot build freedom on foundations of injustice. In today's interdependent world, the profit motive and the development motive must go hand in hand. They must be seen as two sides of the same coin. With greater cooperation, I believe our new partnerships among the countries of the South supported by the North can help unlock the economic potential of an underdeveloped world, for the benefit of the world community as a whole.

Decision makers in the new global economy must not forget the negative impact that globalization and liberalization could have on the developing world.

C.S. Trends towards globalization and liberalization are seen by some as a blessing and by others as the return of laissez-faire capitalism and its attendant neglect for vulnerable groups and nations. What is your view on these contending perspectives?

S.G. Yes, we live in a world where market capitalism has no major ideological rival. There is now a universal understanding that market forces are essential for sustainable development.

Globalization has helped to generate a sustained period of economic expansion. However, there is reason for cautious optimism. It is important to recognize that globalization is not a panacea. We must bear in mind that market forces do not always heed the imperatives of sustainability, equity, social justice and long-term circumspection. For this reason, decision makers in the new global economy must not forget the negative impact that globalization and liberalization could have on the developing world. On their part, developing countries need to strengthen their solidarity and to enhance their capacity for effective participation and negotiation in international fora and to articulate their interests in a united fashion if they are to avoid marginalization.

C.S. Twenty years ago the Buenos Aires Conference on Technical Cooperation among Developing Countries urged UN organizations and agencies to be permeated by the spirit of TCDC. Is that recommendation still valid today?

S.G. A lot has changed since 1978 when the Buenos Aires Plan of Action was adopted. But we should bear in mind that the conference was concerned about gross disparities in incomes, equitable access to resources and opportunities to live a life of human dignity. I will submit that these challenges could be ameliorated or exacerbated by current trends toward globalization and economic liberalization. The UN system has the duty and responsibil-

ity to step up its support for South-South cooperation as an instrument by which developing countries cooperate to speed up their own development and to participate more meaningfully in the international arena.

For this reason, the work of the UN in general, and its operational activities in particular, must be increasingly oriented towards the support of South-South cooperation. In an era of declining voluntary contributions, we must find ways to stretch the available resources by coordinating our work and by supporting activities which are strategic and are likely to have a significant impact on a large number of countries in areas of priority importance for social and economic development. We must intensify collaboration at the country level. Since the General Assembly has decided to hold a special meeting this year to commemorate the 20th anniversary of the Buenos Aires Plan of Action, I believe it is important to use this event to spur all the organizations and agencies of the UN to give increased consideration to the human and material resources which exist in the South. ■

Risks & Opportunities

Interview with the Chairman of the Group of 77:

Developing countries are at a turning point as the 21st century approaches. For example, they face sluggish growth and are at risk of devastation from sudden currency fluctuations. But cooperative action by countries of the South and by the wider international community can address many of these concerns. In the following interview with Cooperation South, the current Chairman of the Group of 77, Ambassador Makarim Wibisono of Indonesia offers ideas on what could be done.

Cooperation South: What do you see as the major challenges to developing countries as the 21st century approaches?

Ambassador Wibisono: The most urgent challenges include the decline in official development assistance (ODA), the eradication of poverty, the revitalization of the role of the United Nations in development, a durable solution to the external debt problem of developing countries, trade protectionism, and the establishment of a regulatory framework of the international financial system.

The accelerated globalization of the world economy creates opportunities and risks that have to be managed wisely and justly. Many developing countries are facing enormous challenges and uncertainties as a result of globalization. Most have become increasingly vulnerable, experiencing sluggish if not negative economic growth. The few developing countries with the infrastructure and productive levels to attract foreign direct investment risk being devastated by sudden changes in the direction of these flows, in the absence of effective regulation of the operation of currency markets. Compounding these challenges is the burden of external debt servicing which has severely hampered the development efforts of many developing countries. For that purpose, I strongly feel that there is an urgent need for the United Nations to play a more active role in this process, particularly in creating a regulatory framework for a just and equitable international trade and financial system for the benefit of all nations.

C.S. What can the international community do to address these concerns?

A.W. First, the international community should respond to the appeal made at the recent Ministerial Meeting of the Group of 77 to support the role of the United Nations in the field of development and international cooperation. We hope the international conference on financing development will address this issue.

Second, the Bretton Woods institutions should work very closely with the United Nations in establishing a regulatory framework that would render the operations of currency markets more open and transparent.

Third, we must find an effective solution to the external debt problem of developing countries.

And lastly, we must endeavour to nurture a transparent and equitable multilateral trading system that benefits both developed and developing countries.

C.S. With a membership of 132 countries, the Group of 77 represents the majority of the Member States in the United Nations. What is the group's position on UN reforms?

A.W: The Group of 77 attaches great importance to the United Nations as a central forum for dialogue and negotiation on issues relevant to international cooperation for development, policy formulation, analysis and coordination, consensus building, and the delivery of technical assistance to developing countries. With this in mind, we want

We do not want the agenda for UN reform to be driven by motives to downsize for the mere purpose of cutting costs.

to see a stronger United Nations—one that has the capacity to handle the development challenges of our world in their increasing complexity and interrelatedness. For this reason, the Group of 77 has supported the Secretary-General's reform efforts and intends to continue participating very actively in this process. Having said that, I should stress that it is in the interest of both the developed and the developing countries that this reform process should lead to the enhancement of the United Nations' ability to promote international cooperation for development. We do not want the reform agenda to be driven by motives to downsize for the mere purpose of cutting costs.

C.S. During the 52nd session of the General Assembly, the Group of 77 called for the convening of a special UN Conference on the financing of international development. Why?

A.W.: The need for the UN to mobilize adequate resources for the acceleration of sustained economic growth in developing countries speaks to the organization's very credibility. The promotion of economic and social progress is one of the United Nations' primary objectives enshrined in the Charter. The Secretary-General's reform proposals identify

the eradication of poverty as one of the great challenges facing the UN, and yet Member States have registered the lowest level of voluntary contributions for development purposes. The goal for Official Development Assistance has been set at 0.7 per cent of GNP but has never been reached, save for a few countries. For the most part, ODA has remained at around half the mark. In the last two years, it has dropped even lower, under 0.3 per cent on average for the industrialized world as a whole. During the period 1992-1995 we have witnessed a 14 per cent decline in real terms in ODA, the sharpest drop since the 1970s. We are therefore heartened to see that the 52nd Session of the General Assembly has adopted a resolution at the initiative of the Group of 77 convening an international conference for financing of development.

C.S. What are your goals for South-South cooperation in the years leading up to the 21st century?

A.W.: We stand at an important turning point in history. The choices we make will influence the destiny of billions of people in the South. The Group of 77 is committed to support South-South cooperation, which promotes collective self-reliance and interdependence among nations and represents an important cornerstone in international development cooperation.

We see great need to implement the Caracas Programme of Action by strengthening the solidarity of developing countries and formulating common positions in multilateral fora, thereby safeguarding their individual and collective interests. We will be working to ensure increased interaction among business people in the South so as to advance trade, investment and financial flows among developing countries.

The choices we make will influence the destiny of billions of people in the South.

For these purposes, we would like to see the UN playing a leading role in promoting an increase in the transfer of technology to and among developing countries, and in supporting South-South cooperation through building stronger partnerships with UN Regional Commissions and regional financial institutions, South economic groupings and other relevant organizations. To this end, in August 1998 the Group of 77 is convening in Bali a high-level conference on subregional and regional economic integration, with the participation of various economic groupings of the South, as well as the UN system and other relevant institutions, with a view to strengthening South-South cooperation. ■

Windows ON THE SOUTH

Current trends, perspectives & events

TWENTIETH ANNIVERSARY OF TCDC PLAN OF ACTION

September 1978 in Buenos Aires: The first-ever world conference on technical cooperation among developing countries achieved its objective. Delegates from 138 States reached a consensus for the adoption of a comprehensive and far-reaching Plan of Action. In December that year, the General Assembly endorsed the Plan and urged all Governments and elements of the United Nations system to implement its recommendations.

September 1998 in New York: The United Nations General Assembly will hold a special commemorative meeting to mark the 20th anniversary of the Plan's launching. A report by the Secretary-General on the status of TC will be issued, for study and actio the Assembly. In addition, UN Special Unit for TCDC will organ series of events aimed at strengthe TCDC in the future.

The Buenos Aires Conference convened at a time when develo countries, which had accelerated development since World War II, need to play a bigger role in the national community. No longer w they merely be aid recipients an material providers, but also true ners in the exchange of goods, tec ogy and skills on an equitable an basis. In the 20 years since ther Buenos Aires Plan of Action inspired the evolution of new pa ships for the South-South exchan resources and experience. ■

AFRICA PROMOTING GOOD GOVERNANCE

Countries of sub-Saharan Africa are having regular dialogue and interaction on good governance among themselves and with their external partners. This is taking place in the framework of a deliberative process called the Africa Governance Forum (AGF).

The Forum held its first regional meeting in July 1997 in Ethiopia on the subject of governance in general. Its second session, in June 1998 in Ghana, focused on accountability and transparency as vital factors for good governance. Representatives of governments and civil society examined the successes and difficulties encountered by African countries in combating corruption. They also shared their experiences on various dimensions of public and private accountability, including the relationship between transparency and good governance.

AGF is part of the Special Initiative on Africa, a United Nations system-wide programme launched in March 1996 to help stimulate Africa's development over a ten-year period. The programme focuses on priority ares set forth by African Governments including: education, governance, food security, health, water, trade and poverty-reduction. ■

(See article on governance titled "New Voices - New Partners" in this issue.)

TRUST FUND FOR SOUTH-SOUTH COOPERATION

In 1995, the UNDP Administrator established a Trust Fund which serves to intensify South-South cooperation. The main purposes of the fund are to mobilize additional financial support for South-South cooperation. Official development assistance is down by 14 percent at a time when developing countries need increased support if they are to enhance their capacity for effective participation in the emerging global economy. Three donors have so far contributed to the Fund:

- Japan provided US$2 million in 1997, and doubled this to $4 million for 1998.
- The Republic of Korea: in September 1997, Ambassador Park Soo Gil signed a memorandum of understanding with the UNDP Administrator, Mr. James Gustave Speth covering an initial contribution of $200,000.
- Ireland, the latest donor, has contributed $36,000 this year.
- Eleven development activities financed by the Fund in 1996/1997 involved projects on trade, finance, investment, entrepreneurship, poverty alleviation, management of pension funds and

research on new rice species. The five activities identified for funding this year include projects on regional development planning, credit analysis and financial sector development in Africa, as well as resource mobilization and fund management. ■

23 COUNTRIES TO PLAY PIVOTAL ROLES IN TCDC

Twenty-three developing countries will serve as pivotal countries for TCDC, based on criteria identified by UNDP's Special Unit for TCDC (see accompanying box). Agreement on this was reached at a meeting in November 1997 hosted by the Chilean Government in Santiago.

Pivotal countries will play a lead role in promoting South-South cooperation by sharing their capacities and experience with other developing countries in a mutually beneficial manner. The primary objective is to promote the effective participation of developing countries in the emerging global economic system, emphasizing trade and investment flows as key elements in promoting growth and development.

Delegates from countries in all regions discussed new guidelines that pivotal countries would follow in furthering global solidarity among developing countries. They also called for closer collaboration between Governments, the private sector, NGOs and other civil society organizations. ■

(Also see article titled "Pivotal Countries in a Two-Track World" in this issue.)

CRITERIA FOR PIVOTAL COUNTRIES

Pivotal countries should have such characteristics and capacities as the following:

- Rich history of assisting other developing countries
- Ability to arrange TCDC financing, including national TCDC fund or umbrella project
- Strong commitment, with policies, guidelines and mechanisms that foster TCDC
- Indigenous technical and institutional capacities in specialized areas
- Willingness to share experiences and technical know-how
- Functioning focal point mechanism and agency or institute responsible for TCDC
- Data base on national capacities and experiences

Pivotal countries so far identified (23): Brazil, Chile, China, Colombia, Costa Rica, Cuba, Egypt, Ghana, India, Indonesia, Malta, Malaysia, Mauritius, Mexico, Nigeria, Pakistan, Peru, the Republic of Korea, Senegal, Thailand, Trinidad and Tobago, Tunisia, and Turkey.

EDITOR WINS 1997 GROUP OF 77/UNDP AWARD FOR ECDC/TCDC

The 1997 Group of 77/UNDP Award for Economic and Technical Cooperation among Developing Countries was presented to Mr. Chakravarthi Raghavan, Chief Editor of the South-North Development Monitor (SUNS). SUNS is published daily by the Third World Network, in cooperation with Interpress Service and the South Centre. Based in Penang, Malaysia, SUNS features critical news analysis of international issues relevant to the South.

The award was given in appreciation of the outstanding contribution Mr. Raghavan has made to ECDC and TCDC, through his insightful analyses of the impact global developments have on the economies of the developing countries, and the role of South-South cooperation in international development cooperation. Mr. Raghavan, a national of India, has been reporting on these issues for 20 years.

Established in 1995, the award was previously given to the South Centre, and Third World Network. ■

Human Development Report 1998

United Nations Development Programme

The Human Development Report, now in its ninth edition, is a
round resource for reference, debate and discussion. The special fo
this edition is on consumption patterns in today's world, and their
cations for human development. The Report analyses present cons
tion patterns and how they lead to consumption shortfalls for the
and create inequality and environmental stress. It asks how presen
terns of consumption should change to promote more sustai
human development for both the rich and the poor, present and f
generations. It also provides an action agenda, ranging from comm
action by consumer groups to private sector initiatives, to govern
incentives for consumption, which is both equitable and sustaina

An indispensable resource for policymakers, students of in
tional development and development professionals, the R
updates the ranking of 174 countries according to the Human
lopment Index (HDI). It also gives the global ranking of 163 cou
in terms of the Gender-related Development Index, which me
inequalities between men and women in human development ach
ments. New to this edition, in addition to the Human Poverty
for 77 developing countries—measuring deprivation in basic h
capabilities—is a Human Poverty Index for 17 industrial coun
This new index attempts to measure human poverty in the ind
world, and includes such variables as exclusion from the world o
and from the social interactions associated with employment.

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IN THE FORTHCOMING SPECIAL ISSUE ON

Globalization

Insights by:

- STEPHEN BROWNE
- MARIA ELENA CARDERO
- STEVE DE CASTRO
- NAZLI CHOURCRI
- NADINE GORDIMER
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IN THIS ISSUE:

Pivotal Countries, Regionalization and Globalization, BY MICHAEL SAKBANI

Increasing globalization could marginalize developing countries. Or can they reshap and deepen their mutual cooperation, focus on building efficient economic partne ships, and thus improve the South's position in the newly emerging internation framework? How can more advanced "pivotal" developing countries contribute t this process?

New Voices, New Partners in the Search for Better Governance, BY KRISTINN HELGASO

Governance involves many voices and many partners, from citizens to ministers. Th UNDP-organized International Conference on Governance drew in widely varie participation from 160 countries. What did the many partners there say about the k challenges facing countries in the South as they try to raise the quality of publ sector management?

Multilateral Agreement on Investment, BY MARTIN KHOR

The MAI would allow international companies to cross borders, set up project buy up local companies, and be virtually unregulated in business and in repat ating profits and capital. It would grant rights to investors without placing a obligations on them, while host countries would have obligations but no righ Developing countries are not opposed to foreign investment, but think it could more beneficial if a better balance were struck.

Young Entrepreneurs and New Information Technologies, BY SUJIT CHOWDHURRY

Young people under 15 represent two-fifths of the developing world population a youth boom coming on top of an acute job shortage. Could unemployme be abated if more young people became self-employed entrepreneurs, using ne information technologies? What if graduates got a "tool set" and a loan to becor entrepreneurs instead of job-seekers in bleak markets?

TCDC as a Central Tool in FAO Services to Developing Countries, BY RAMADHAR

No longer ad hoc, but operating in a structured framework; not just mainstrea but getting "first consideration" in all programmes and projects. At the FAO, t new profile for technical cooperation among developing countries required radical transformation of attitudes and approaches", and generated a wealth multidirectional, multidisciplinary flows of mutual assistance.

PLUS: INTERVIEWS WITH THE UN SECRETARY-GENERAL AND THE CHAIRMAN OF THE GROUP OF 77